

Professor Ian Harper
Chair, Competition Policy Review
Competition Policy Review Secretariat
The Treasury
Langton Crescent
PARKES ACT 2600

10 December 2014

Dear Professor Harper

Thank you for the opportunity to provide a further submission to the Competition Policy Review ('the Harper Review') following the release of the Draft Report in September 2014. ADIA believes the Harper Review provides an important opportunity to refresh Australia's competition policy, to reflect current and future challenges in both economic and social policy.

ADIA strongly supports the Harper Review Panel's inclination to extend competitive neutrality principles to the public provision of human services and to establish an Australian Council for Competition Policy (ACCP) that would have the ability to initiate competition studies of Australian markets and make recommendations to relevant governments. ADIA also strongly supports the proposal to allow market participants to request that the proposed ACCP undertake a market study.

Taken together these recommendations, if implemented, would facilitate a more efficient application of competitive neutrality principles particularly in the provision of human services by the public sector.

ADIA understands that Public Hospitals have a right to provide human services free of charge to patients. Indeed, the traditional role of public hospitals has been to provide free healthcare (including diagnostic imaging services) for Australians that elect to be treated publically (including outpatients). This role has sat alongside a private sector providing diagnostic imaging services that were traditionally also largely bulk billed through Medicare.

However, Medicare rebates for diagnostic imaging services have not been altered for 16 years in the face of rising costs faced by private practices.¹ Consequently, many private practices have been forced to charge patients a "gap payment" to cover the difference between the Medicare rebate and the actual cost of providing the diagnostic imaging service, including a market rate of return on capital employed.

¹ Annual indexation of imaging schedule fees has not been applied since November 1998. See: 2011 Medical Benefits Reviews Task Group Diagnostic Imaging Review Team Department of Health and Ageing 2011, Review of funding for diagnostic imaging services: final Report, November, p.8. Available at: https://www.google.com.au/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&uact=8&ved=0CBwQFJA&url=http%3A%2F%2Ffranzcr.edu.au%2Fcomponent%2Fdocman%2Fdoc_download%2F1281-review-of-funding-for-diagnostic-imaging&ei=wKKnU5XHHMne8AWVtIHADw&usq=AFQjCNGS_1rCiLQ3srlg7-1peyQ79vB3gg&sig2=AIPh-q_X3mydALeFMzX_cg&bv=69411363.d.dGc

In contrast, many public hospitals have been actively promoting the fact that they bulk bill as a marketing tactic to attract outpatients away from private practice providers. A bulk billed diagnostic imaging service would not generate a market rate of return on capital used by public hospitals to provide diagnostic imaging services to outpatients.

ADIA believes there is an urgent need to achieve competitive neutrality in the provision of diagnostic imaging services provided by public hospitals to outpatients. The Government has just announced that it intends to maintain the freeze on Medicare rebates to promote a “modest price signal” for Medicare-funded diagnostic imaging services. If public hospitals continue to offer “free” outpatient services notwithstanding the downward pressure on Medicare rebates this will be in competition with private practices that need to earn a market return.

ADIA believes there is an increasing trend towards outpatients, requiring diagnostic imaging services, to “shop around” for the lowest cost option. It could therefore be expected that as bulk billing declines in the private sector in response to the Federal Government policy measures, there will be a rise in the proportion of outpatients receiving diagnostic imaging services in public hospitals. This will place increased financial pressure on Medicare. Public hospitals currently deliver around 16 per cent of Medicare-funded diagnostic imaging services (rebates totalling \$412.2 million in 2010-11).

Public Hospitals attracting outpatients away from private practices by not charging a full cost price for a diagnostic imaging service is a prime example of the type of competition that ADIA believes was intended to be eliminated through implementation of competitive neutrality principles.

ADIA acknowledges that the Harper Review “cannot adjudicate on every claimed breaches of competitive neutrality”. However ADIA believes there is overwhelming evidence to suggest that competitive neutrality principles are being breached in the public provision of many diagnostic imaging services to outpatients. The Final Report provides an opportunity to nominate diagnostic imaging as a sector where the competitive balance between the public and private sectors should be the subject of specific enquiry. **ADIA therefore suggests that the Final Report include a recommendation that the Commonwealth Government issue a reference to the new ACCP to undertake a competition study of the diagnostic imaging market.**

ADIA commends the Review Panel for the development of a competition policy framework that, if implemented, has the potential to improve the competitive balance between public and private provision of human services to outpatients, including diagnostic imaging services, and thereby improve the efficiency of provision of human services in the Australian economy.

Kind Regards,



Pattie Beerens
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