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3 December 2004

Ms Andrea Coulter
Medical Technology
Productivity Commission
Locked Bag 2
Collins Street East
MELBOURNE VIC 8003

Dear Ms Coulter

Impact of Advances in Medical Technology on Healthcare Expenditure in Australia

The Pharmacy Guild of Australia (the Guild) welcomes this opportunity to lodge a submission concerning the Productivity Commission's research study on the impact of advances in medical technology on healthcare expenditure in Australia.

The terms of reference for this study define medical technology to include pharmaceuticals. The Guild's submission focuses mainly on this aspect of the study and draws attention to several pieces of research and other documents which we believe will assist the Commission in its work on this topic.

The Guild's conclusion from the evidence we provide is that pharmaceuticals are cost effective technologies that help to prolong life and improve quality of life. They also help to ensure people can lead active, fulfilling and productive lives in the community, and to keep them out of hospitals and other institutions thereby generating significant savings in health spending. At the same time the Guild questions the conclusions of Treasury's Intergenerational Report (2002) which predicts a large blowout in the cost of the Pharmaceutical Benefits Scheme (PBS) over the next 40 years due largely to the ageing of Australia's population. We believe this to be unduly pessimistic particularly given the marked slowing in the rate of growth in the PBS in the past two years, and the recent reduction in the number of new drug introductions.

Several documents are attached to this letter which amplify the views expressed above:

1. Discussion Paper (February 2002) 'Ensuring the Future of the Pharmaceutical Benefits Scheme'. This paper was prepared by the Guild in response to a request

from the Department of Health and Ageing during its examination of the long term sustainability of the PBS. The rapid growth in the cost of the Scheme at that time, brought on largely by the listing on the PBS of two new drugs (celebrex and zyban) had led many to question its sustainability. The Guild argued that the debate was focused heavily and inappropriately on the cost of the Scheme with little or no attention to its value in terms of improved quality of life, better health outcomes and savings in other parts of the health system.

2. Two papers (referred to in the Guild's Discussion Paper above) authored by M-TAG Pty Ltd in November 1999. M-TAG's research, jointly commissioned by the Pharmacy Guild and Eli Lilly Australia, examined the arrangements for the financing and delivery of pharmaceuticals in Australia. The first paper examines the economics of the Government's involvement in financing pharmaceutical services and whether this intervention is desirable on efficiency and equity grounds. The second paper investigates whether or not pharmaceuticals are a cost effective health care intervention. The findings in both papers remain as relevant today as they were when first published in 1999. They touch on many of the issues being examined by the Productivity Commission in its present study.
3. Two recent papers from researchers in the United States have examined the contribution of medicines to prolonging life and improving quality of life. The first, authored by Frank Lichtenberg of Columbia University, examines the impact of new drug launches on longevity¹. Lichtenberg finds that 40 per cent of the increase in longevity in 52 countries between 1982 and 2001 was due to launches of New Chemical Entities (NCEs). He also found that launches of NCEs have a strong positive impact on the probability of human survival and that the cost per life year gained from the launch of NCEs is extremely low.

The second study, authored by researchers from the University of California and the CNA Corporation², validated their earlier work on the effects of pharmaceutical consumption on life expectancy, and extended it to examine quality of life as well. Their overall conclusion is that increased pharmaceutical consumption helps improve quality of life as well as life expectancy.

4. A further topic referred to in the Commission's *Issue Paper* is the impact of Australia's ageing population on health care expenditure. The Guild has recently examined this matter in depth in response to an invitation from the Committee for Economic Development of Australia (CEDA) to contribute to a special publication on Australia's ageing population. Dr Michael Tatchell, the Guild's Director Health Economics, who authored the paper³, argues there are several

¹ Lichtenberg FR 'The Impact of New Drug Launches on Longevity: Evidence from Longitudinal Disease Level Data from 52 Countries 1982-2000' Columbia University and National Bureau of Economics 2003.

² Frech, H and Miller R 'The Effects of Pharmaceutical Consumption and Obesity on the Quality of Life in OECD Countries' *Pharmacoeconomics* Vol 22, Supplement 2 2004.

³ Tatchell M 'Ageing and Health Costs: Managing the Future', Chapter 5 in *Australia's Ageing Population: Fiscal, Labour Market and Social Implications*, CEDA, Melbourne 2004.

reasons to believe that Australia's ageing population does *not* constitute a crisis in the making. Rather it is a challenge for future governments, health bureaucracies, health providers and administrators to control and manage our future health care costs and to develop and implement appropriate policy responses. These include policies to encourage sustained economic growth, to maintain a public/private balance in our health systems, and to maintain a healthy and productive health workforce.

5. A recent article in *Pharmacoeconomics*⁴ provides some informative insights into the challenges ahead for pharmaceutical manufacturers striving to bring new products to the market. The author (Jerry Avorn from the Harvard Medical School) argues that new pharmaceutical products will not only have to pass the traditional test of efficacy and safety but also increasingly the hurdle of cost effectiveness. Australia has been leading the way in this respect for the past decade as pharmaceutical manufacturers have been required to convince the Pharmaceutical Benefits Advisory Committee of the cost effectiveness of new prescription medicines relative to comparator drugs before they can be listed on the PBS.

Finally, it is worth reiterating the fact that pharmaceutical innovations have played a significant part not only in helping to prolong human life but also in improving quality of life. Outstanding examples have been discoveries of penicillin and antibiotics to control infectious diseases such as tuberculosis, meningitis and typhoid fever. Other medicines have had a significant impact on childhood mortality from diseases such as polio, whooping cough, diphtheria, rubella, mumps and enteritis. Then of course, there is insulin for diabetes and the many breakthrough drugs for treating heart disease and cancer. More recently the lipid lowering drugs and drug treatment for *Helicobacter Pylori* have prevented many premature deaths and costly hospital treatments for heart failure, stomach ulcers and so on.

The Guild would be happy to elaborate on any of the attached material provided to the Commission as part of its study of the impact of advances in medical technology on healthcare expenditure in Australia.

Yours sincerely

Stephen Greenwood
Executive Director

⁴ Avorn J 'The Role of Pharmacoepidemiology and Pharmacoeconomics in Promoting Access and Stimulating Innovation, *Pharmacoeconomics*, Vol 22, Supplement 2, 2004.