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BLACKMORES
THE BEST OF HEALTH

Cost Recovery Inquiry
Productivity Commission
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Dear Commissioner

Draft report on Cost Recovery

Thank you for providing Blackmores with a copy of the Commission's draft report on Cost Recovery, in response to our submission of 13 November 2000.

Like other members of the complementary healthcare industry, Blackmores welcomes the comprehensive report, and its timely delivery. We would like to offer the following comments on some of the report's findings.

100 per cent cost recovery

It is clear from the Commission's findings that cost recovery in government is a concern for many industries, not least our own. The Commission's finding that 100 per cent cost recovery is inappropriate for a number of government agencies, including the Therapeutic Goods Administration, is especially welcome.

As we commented in our earlier submission, we do not believe industry should be forced to pay for TGA activities such as the provision of policy advice to government. The Commission confirms this view on page 115 of its report: "The [TGA is] required to recover 100 per cent of all agency costs. This has led [it] to recover costs from industry (through regulatory charges) for activities such as internal administration, policy development, ministerial and parliamentary services, contributions to international organisations and obligations, and public information. As these activities are not directly related to the [agency's] regulatory activities, nor to the beneficiaries of regulation, their costs should not be recovered from regulated firms."

On a related point, Blackmores strongly supports Recommendations 6.2, that "as a general principle, cost recovery arrangements should apply to specific activities, not to the agency which provides them", 6.3 (that "the practice of setting targets that require agencies to recover a specific proportion of their total costs should be discontinued") and 6.4, that "cost recovery arrangements should not include the cost of activities undertaken for government, such as policy development, ministerial or parliamentary services and international obligations".

An activity-based approach to cost recovery might also make it a little easier to swallow the TGA's assertion that, in effect, it exists only because the industry exists and that "industry gains a significant commercial benefit from [the TGA's] product endorsement" (page 68). In the case of complementary healthcare, the issue here is not that the industry exists but rather that its products may be defined inappropriately – that is, under a pharmaceutical/drug framework.

'Beneficiary pays'

The Commission makes a number of interesting comments regarding 'beneficiary pays' versus 'regulated pays'. Blackmores is of the view that consumers of complementary healthcare products already pay heavily for government regulation, which is partially passed on through the prices we are obliged to charge for our products.

Although general taxation is outside the scope of the Commission's inquiry, Blackmores would also argue that consumers are now being "doubled slugged" by being forced to pay GST on some healthcare products. There is little doubt that well people are less of a drain on the public healthcare purse, and it is both shortsighted and foolish to penalise taxpayers who wish to take responsibility for their own health and well-being.

Transparency and accountability

The Commission has comprehensively addressed another area of concern for Blackmores – that of transparency and accountability. In particular we support Recommendation 3.2 (that revenue from cost recovery should be identified separately in budget documentation, and in each agency's annual report and portfolio budget statements) and the comments made on page 230 about the need for agencies' cost recovery activities to be linked to clearly articulated objectives. The policy review process outlined on page 199 provides a useful starting place.

As an aside, Blackmores was interested to note that the Australian National Audit Office has picked up this point, saying the TGA could improve its relationship with stakeholders through the publication of more detailed information in annual reports as well as quarterly performance reports.

Industry consultation

The Commission's comments (page 106) on consultation also resonate with Blackmores. The report notes that "those subject to cost recovery charges may have valuable insights into ways to promote appropriate regulation and efficient agency obligations". We believe that insights and ideas are not restricted to cost recovery and would urge that processes of open consultation and goodwill be established between government and industry at as many levels as practicable. For example, the TGA claims to have effective systems in place but industry's experience is often woefully different.

Issues of harmonisation

Consultation, transparency and accountability take on added significance given the move toward trans-Tasman harmonisation and a joint regulatory body to replace the existing TGA or its regulatory arrangements. I am sure Blackmores speaks for many other industry players as well as ourselves when we urge the government to build in such safeguards and processes at the beginning of the change. On the other hand, any move toward a joint agency for the regulation of our industry should not be an excuse for inaction or delaying changes to cost recovery processes – or any other signalled reform - in the meantime.

Policy guidelines

The Productivity Commission has highlighted a “major deficiency” (page 195) in the unsatisfactory standard of existing guidelines for agencies implementing the government’s cost recovery requirements. We would urge the Commission to push for a strong policy framework to be established as quickly as possible to ensure that cost recovery procedures are legal, constitutional and appropriate – especially where international arrangements are concerned. Such checks and balances are critical to ensure both industry and public confidence in our government agencies.

Implementation

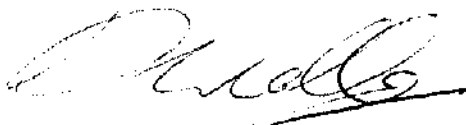
Blackmores would like to commend the Commissioners and their staff for the speed and thoroughness with which this inquiry was held. You have identified some uncomfortable truths and offered intelligent options for improvement.

In an effort to help keep up the momentum, Blackmores will be writing to the Prime Minister, Leader of the Opposition, the Minister of Finance and Administration and the Minister for Health and Aged Care to ensure that this report and its valuable suggestions do not fall by the wayside, especially with all the distractions of an election year.

We would also urge the Commission not to accept a long (five-year) period of review, or to permit agencies with a vested interest in the status quo to stall on the grounds of future policy or bureaucratic changes. The temptation to stick with business as usual is, at worst, in some cases illegal and, at best, not in the best interests of the government, industry or the taxpayer.

Thank you again for the opportunity to comment.

Yours faithfully



DARIN WALTERS
Chief Executive Officer