

## THE AMAZING POWER OF AUSTRALIA'S CHEMISTS

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Don't even try to compete, the Pharmacy Guild has the business sewn up.

On July 4, Kieran Schneemann was ushered out of Pharmacy Guild House in the heart of Canberra's lobbying district. The guild's chief executive of two years is said to have had no time to pack his belongings, farewell colleagues or notify contacts. Instead his departure was revealed five days later in a brief statement buried on the guild's website.

Canberra being Canberra, the rumour mill was quick to turn.

The exit of Schneemann - an outsider who had clashed with the guild's powerful president and board - did not in itself shock politicians and fellow lobbyists. But its mysteriously abrupt nature did.

So, was it true he'd been unhappy with the guild's ethics? Had president Kos Sclavos finally had enough of the internal clashes? Or was it, as some alleged, related to scandalous behaviour by other guild members at the annual Australian Conference of Pharmacy Practice and Management at Norfolk Island in May?

The Pharmacy Guild, one of the most powerful, secretive and influential lobby groups in the country, is an easy target for insinuation and criticism.

Variously described as a bully-boy trade union or a bunch of thugs, the guild has an impressive record of protecting the interests of its members unhindered by governments - Liberal or Labor, state or federal.

Its power in the corporate sector is also considerable, as South African grocery wholesaler Metcash discovered in July when pharmacist Terry White's refusal to work with it drove it out of the auction for Primary Health Care's \$500 million pharmacy business.

"Their political power and commercial power are inextricably linked," says Chris Bilkey, the former managing director of generic drug company Bellwether Pharma. He says he has felt, first hand, the power of the guild. "My current occupation as a bookseller is testament to their power and influence," he adds.

The guild's power lies in the fact its 4200 members see about 95 per cent of the population in any one year. Pharmacists are also seen as pillars of the community, regularly topping polls of the most trusted professions.

"It's like taking on an order of nuns," says one former politician, on trying to do battle with the lobbying bloc.

Nowhere is the guild's political clout more evident than in the four Community Pharmacy Agreements it has managed to secure from federal governments since 1990.

In an age of unbridled competition, the agreements ensure pharmacies remain a relic of protectionism. They have kept supermarkets out of the multibillion-dollar pharmacies industry, ensured that no new pharmacy is allowed within 1.5 kilometres of an existing one, guaranteed hefty payments to pharmacists under the pharmaceutical benefits scheme and restricted pharmacy ownership to chemists.

The fourth CPA - which is worth a whopping \$35 billion over five years and provides \$11.1 billion in payments for the dispensing and supply of medicines (up 40 per cent on the previous agreement) - expires in 2010 and negotiations with the Rudd government on the fifth are expected to kick off in earnest next year.

"Those are very significant agreements that are worth a lot of money and give pharmacies certainty for a five-year period," says a source close to the guild.

"No other organisation has that and certainly no pharmacy sector in the world has an agreement like that with a government. It's mind-blowing."

Paul Kerin, professorial fellow of strategy at Melbourne Business School and a staunch critic of the guild, says the anti-competitive and overregulated nature of the pharmacy industry means Australians are paying far more than they should for medication.

His view is backed up in a report released by the Centre for Independent Studies in which economist David Gadiel argues that there are no consumer benefits from restricting entry and ownership in the pharmacy industry. Gadiel's report, *Harmacy: The Political Economy of Community Pharmacy in Australia*, says the clinical benefits pharmacists claim to bring have "failed to materialise effectively in Australia".

"Pharmacists are running a business like any other person," Gadiel says. "The guild has a great track record, an unparalleled track record in convincing government of the virtue of maintaining this closed shop . . . and consumers are paying more than they should."

Guild president Sclavos has heard the criticism before. His view is that pharmacists are community service providers, not retailers. He says pharmacies need to ensure that all medications listed on the pharmaceutical benefits scheme are available to consumers across Australia, even if it means stocking unprofitable lines, and that they should therefore be protected from profit-driven retailers that would undercut them on the most popular drugs.

"Deregulated markets don't work in health," Sclavos says. "Some bits of government infrastructure should remain because of reasons other than bottom-line profit."

The guild itself has a rather healthy bottom line. Despite being registered as a not-for-profit employers' organisation under the Workplace Relations Act 1996, the guild has a suite of side businesses collectively known as the Guild Group, which dished a net profit after tax of \$23.9 million in the 2006-07 financial year (results for 2007-08 are not yet available).

The group comprises an insurance company, which covers about 95 per cent of Australia's pharmacies, a marketing company, an accounting company, an IT services company and even a jelly bean company. "You know those jelly beans you get in pharmacies?" a guild source says. "We make several million dollars profit a year just on those."

The multimillion-dollar profits the guild reaps are used to drive the organisation's power. With them, the guild has been able to maintain offices in every state and territory to cement relationships with local and state governments.

Across the organisation it employs 100 staff who develop policies, write papers and push proposals that will benefit the guild's membership.

"A lot of the legislation [which protects the interests of pharmacies] is state legislation," the guild source says. "So we invest in those relationships with each and every state government, and in the end this power is derived from having the money to fund all that."

Sclavos concedes that only about 18 per cent of the guild's undisclosed revenue comes from membership fees. But he says the guild is not motivated by money.

"From the guild's perspective, it's not all about dollars and cents and adding profit," he says. "We value health principles first - and the key principles are that pharmacists make sure they stock all lines at every community pharmacy in Australia."

Listed companies, which are under pressure to serve up profits, would abandon those principles. He says: "They might say, 'Why are you selling these unviable products - that's madness!'"

"Of the 3600 lines on the PBS, only about 250 are profitable. Why don't we just sell 250 lines? Well, that's what happens in places like the US."

Other companies have for years been beating on the government's doors to no avail, trying to gain an entry point into the lucrative chemist business. Supermarkets, in particular, have been eager to set up pharmacies in their stores.

The biggest supermarket player in Australia, Woolworths, had a very public stoush with the federal government three years ago in a bid to have the Community Pharmacy Agreement-sanctioned barriers to entry relaxed.

On hearing that the then prime minister John Howard and health minister Tony Abbott had sided with the pharmacies, Woolworths' chief executive of the time, Roger Corbett, retorted: "This is the biggest anti-competitive gerrymander in Australia. They [pharmacies] want to protect a magnificent income stream."

But Joe Hockey, a minister in the Howard government, says Woolworths behaved like a bully during the deregulation debate, while local pharmacies were merely pleading for the case of small business. "Newsagents and pharmacists are two forever-protected species as far as the coalition is concerned," he says.

Now the opposition spokesman for finance, competition policy and deregulation, Hockey argues that relaxing the laws on pharmacies would deliver very little economic benefit. "It would harm the community," he says. "It would represent the removal of yet another small business in favour of the large nationals."

Gadiel disagrees. He says deregulation may bring down the cost of over-the-counter and private prescription medications.

"To make proper policy decisions, you need to look at the costs and benefits of regulation" Gadiel says. "Is it appropriate, is it efficient, is there a need, what are the social benefits of these kinds of restrictions?"

"Certainly, pharmacies are gaining from the regulation but you have to ask

whether consumers at large are benefiting from it. And how much are people willing to pay for these benefits?"

Despite looming negotiations for the fifth CPA, the Rudd government has yet to state its policy on pharmacy deregulation.

"We look forward to productive discussions with the guild, and to working with pharmacists to deliver effective services to the community," Health Minister Nicola Roxon says. "We are interested in all proposals that utilise pharmacists to the extent of their training and for the benefit of the community."

She declined to comment on reports that her parents are pharmacists.

Whether the supermarkets will mount another major assault on the pharmacy industry also remains to be seen. New Coles chief Ian McLeod probably has enough on his plate with the turnaround of the ailing retail chain without taking on the government and the all-powerful Pharmacy Guild.

Woolworths boss Michael Luscombe is eager to get a foothold in the industry but appears to be adopting a less militant stance than that of Corbett. He says only that the Australian Competition and Consumer Commission grocery price inquiry took the line that increased competition would benefit consumers, and believes the same premise holds true for medicines.

"When I look at inflation across Australia, the two sectors that stand head and shoulders above for a long period of time are health and education," he told the Weekend AFR.

"I would have thought that if we want to bring down the inflationary effect in health, one of the benefits that may come from the deregulation of pharmacy and allowing other players to get in there will be to actually bring down the cost of health care."

But, as Corbett learned, Sclavos is unlikely to take that argument lying down. The guild president says he has a "personal issue" with companies such as Woolworths and Coles trying to muscle in on the pharmacy business, when they are the biggest sellers of alcohol and cigarettes.

"I have an issue with a company that pretends to be the good corporate citizen but sells products that are known to be unsafe," he says. "I don't even think they have a right to be discussing having access to pharmacy. When you're a pharmacist and you are running a government program, which is the PBS, your ethics should be at a higher level.

"I don't think we should be running the health system with that [profit-driven] ethos. If we did, they would be cutting costs and not selling every medicine, they wouldn't be selling items that are unprofitable, they wouldn't care whether rural patients are getting drugs at higher prices than in cities. The key principles of how they operate their businesses shouldn't be near our health system."

The language used by Sclavos - and by past guild presidents - is highly charged and emotive.

Kerin describes the guild's conduct as appalling. During the last CPA negotiations, he claimed Corbett showed remarkable restraint in not suing the guild for defamation, after then president John Bronger claimed that Woolies hides "behind the guise of increased competition, yet they represent the most anti-competitive face of business, using predatory pricing to drive smaller operators out of business".

He believes the guild engages in spin to get its message across, adding: "We, the public, just don't have time to find out if those arguments are true."

But many others feel the guild is simply doing its job. "You can't blame a lobbying group for lobbying well," one source says.

The problem, however, is that the guild's mandate is far broader than that.

Under the fourth Community Pharmacy Agreement, the government handed the guild \$500 million to run programs and services aimed at improving the use of medicines, rural and indigenous access to medication, and research and development for better community health.

The grant was subsidised by money unspent during the third agreement, as well as an amount equal to 4¢ per PBS prescription dispensed from July 1, 2005 until the start of the fourth agreement.

But several medical entrepreneurs who have tried to market their wares to the guild claim to have run into a brick wall. One industry player, who tried to get the guild's support for his product, got short shrift.

"In this country they control the R&D," he says. "If they don't support you, you won't get any funding.

"The government gives them the mandate of running pharmacy in this country. They really are in control of their industry in a very comprehensive way.

"It's very frustrating if you are not one of their chosen."

One former federal minister agrees with the assessment. "They are a deadening hand in the whole area of innovation or any change or anyone trying to do anything," he says.

Other lobby groups have studied the secret to the guild's success.

During its 80-year history, it has developed potent political connections at all levels of government, the ability to mobilise its members, and a mastery at keeping politicians in check.

As a result, critics claim, politicians pander to the guild and its vested interests.

Hockey believes the guild's success lies in the fact that it has been a "through thick and thin" lobby group.

"If you form a relationship with them, they are there for the good times and the bad times," he says. "There are other lobby groups that want to know you only when you are influential."

It also can back up its promises with action. "The Pharmacy Guild undoubtedly has the ability to mobilise its members in a way nobody else can," Hockey says.

Take PBS Online. The Howard government tried for years to get pharmacies to embrace the online facility, but only about 10 per cent of chemists did while the guild continued to oppose the initiative.

However, once the lobby group had secured a "satisfactory" deal with the government, which involved better software, improved response times, and an additional 40¢-per-script bonus for pharmacists using PBS Online, the take-up went from 10 per cent to 98 per cent in two years, Sclavos says.

A guild source says: "If the guild says no, then pharmacists don't do it. If the guild says do it, they do it. If the guild says start lobbying the public and let the public know we're not happy with the way we've been treated by government, our members communicate that to every customer who comes in."

Indeed, the biggest petition handed to parliament was submitted by the Pharmacy Guild on behalf of its members in May 2004. The guild presented more than 500,000 signatures - gathered in little more than a month - to the NSW parliament calling on the government to stop the National Competition Council's proposed move to deregulate the industry.

Sclavos says other lobby groups are free to copy the Pharmacy Guild's formula, but it involves a lot of hard graft and face-to-face time to develop relationships.

"I have a personal principle that at your first two meetings with a politician you should never be asking [for] anything," he says. "It's about establishing a relationship."

Sclavos tells politicians to give out his phone number if their constituents have any pharmacy-related questions. He gets involved with the implementation of policy, and he insists the guild does all its own lobbying rather than employing consultants because "no one can sell a message more passionately than a pharmacist if it's a pharmacy issue".

Another key to the guild's perpetual power is intelligence, which it gathers and dispenses.

A guild source says: "It's a matter of having an army of people, having ears and eyes and capturing this intelligence."

This means the guild is always on top of the potential issues concerning pharmacists and can be proactive, rather than reactive, in heading them off. The guild is also a master at communicating information - and its message - rapidly to its members, the media and the public.

Each year, it spends about \$3 million on advertising on radio and television, such as the Across Australia with Charles Woolley show. It also writes on health issues for about 25 magazines, and takes paid advertisements in these magazines.

"You might ask yourself why every year does pharmacy get in the Nielsen Poll [of the most trusted professions]," one guild source says.

"We can't influence that poll - we don't even know when they do it - but every single year, whatever poll it is, pharmacy is ranked either first or second, and it has been for the past five years.

"One of the reasons that happens - which of course we derive a great deal of power and leverage from - is that we continually feed those who use pharmacy how good we are. And they are the aged, the infirm, and mothers. And who listens to radio all day and watches television?"

"There's 1000 issues we can talk about on a daily basis that send the message out there, 'Well, ask your friendly pharmacists because they are the ones who can help you with that'.

"It's a really, really good issue and program, I am not in any way denigrating it. But it's very clever."

In addition to the television and radio shows, Sclavos estimates he makes more than 120 speeches a year to community groups, and many of his colleagues probably do the same. Some of the guild's communication is less overt, such as the message it sent out to members to stymie Metcash's proposed takeover of the Primary business. "The end result was the end result," a guild source says. "It was a win. The right result was secured for the guild.

"It was terribly simple. It was a matter of getting messages out there

through third parties that we weren't happy and we wouldn't be very co-operative and we would rally the troops if Metcash persisted with its proposal . . . through Terry and other pharmacists, but also through third parties who were linked in with Andrew Reitzer and Metcash.

"We found out how to get messages to them without them coming from the guild . . . People who work closely with Metcash - either consultants or advisers or financial advisers."

Not all the guild's communication is self-serving. When, in August last year, Novartis recalled its osteoarthritis drug Prexige because of dangerous liver side effects, the guild sent the warning out to its members long before the government had formulated a plan.

The Pharmacy Guild also has found a way to make a profit out of its communication.

The Consumer Medicines Information, an information leaflet handed out to people when they buy medications, is distributed on behalf of pharmaceutical companies by services group healthlinks.net, a company the guild owns. "We get the pharmaceutical industry to pay us to do that," a former member says.

Critics of the guild say its ability to turn a handy profit while insisting it is a not-for-profit organisation is only one of the examples of its hypocrisy.

The organisation accuses Woolworths and the big supermarket groups of being anti-competitive, while fighting tooth and nail to protect its members' monopoly.

And it fights against the corporatisation or quasi-corporatisation of pharmacies, while allowing certain pharmacists to establish chains, such as the Chemist Warehouse or Pulse Pharmacy chains.

"Our view was no different to [that of] Coles," one would-be competitor says. "If they are allowed to do it, why can't we?"

But it seems the guild will continue to get its way into the foreseeable future under Sclavos, who reportedly earns \$400,000 a year for his efforts.

Sources close to the guild say it is Sclavos who pulls all the strings, which can be frustrating for the organisation's chief executives and could have led to Schneemann's departure in July.

The president is not shy about owning up to his front-man role. "We're different from other structures," he says. "It's very much I direct the ship in terms of operations and lobbying, I'm the front man.

"If we've got a meeting with a politician, it's me, it's not Kieran or any other staff member - how can they give the message when they're not a pharmacist?"

Schneemann, a former Howard adviser, is gagged by a confidentiality agreement and refused to comment for this story.

For his part, Sclavos told the Weekend AFR he got on very well with Schneemann. The chief executive had not been sacked, he insisted, but merely resigned while Sclavos was overseas. He fully expected Schneemann to pop up at another lobby group in Canberra.

As for reports that Schneemann had taken issue with inappropriate behaviour by some guild members at the annual Australian Conference of Pharmacy Practice and Management, Sclavos was adamant this was "silly, crazy stuff".

"There's always scuttlebutt obviously when somebody leaves," he said. "But it's such a small industry, it would be out in the open."

A few weeks later it was. The guild's high-profile national councillor, John Dowling, resigned after allegations of improper behaviour at the conference.

Several witnesses made official complaints to the guild executive about the incident, alleging that Dowling, who was representing the guild at the conference while Sclavos was overseas, harassed a female conference delegate while intoxicated, despite repeatedly being told that his advances were unwelcome.

The guild said Dowling had resigned for private reasons.

When the Weekend AFR got back to Sclavos and asked him whether the guild's handling of the complaints against Dowling had contributed to Schneemann's departure, he said the two exits were "unrelated".

"The guild strenuously denies any links between the two incidents. I can comment, as the incident is unrelated to Kieran's departure, that Kieran did not raise any 'moral opposition' issue with me or the Council," he said.

Dowling remains on the guild's Tasmanian branch committee.

The Pharmacy Guild remains as much of an enigma as ever.