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'Drugs Threaten U.S.-Australia Trade Deal'
*Administration Wants Australians To Give Up
Affordable Prescription Drug Prices*

October 29, 2003

Dear Colleague:

While agriculture garners most of the headlines, pharmaceuticals could emerge as an obstacle to a U.S.-Australia Free Trade Agreement (FTA), if PhRMA and the Administration get their way (see article below from *The Australian*).

Australia has an innovative system for providing affordable prescription drugs for its population. Like our VA and DOD, their Pharmaceutical Benefits Scheme negotiates prices on drugs for beneficiaries. It does not discriminate on national origin, and thus does not limit market access. PhRMA complains that its manufacturers cannot charge Australians the same inflated prices they charge American seniors. The industry wants changes in trade policy in order to circumvent barriers to price gouging. Unfortunately, the Bush Administration appears to agree.

Australia's Pharmaceutical Benefits Scheme is immensely popular among its population. Any provision in the FTA that undermines the system could provoke ill-will toward the U.S., threaten the agreement, or even (because of reciprocity) jeopardize our own VA/DOD drug discounts. I hope you will join me in urging negotiators to exclude the Pharmaceutical Benefits Scheme from the U.S.-Australia FTA.

Sincerely,

Tom Allen
Member of Congress



Drugs threaten US trade deal

By Roy Eccleston and John Kerin
27Oct03

A NEW row over Australia's national cheap drug scheme is threatening efforts to clinch a US free trade deal by the Christmas deadline.

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As officials from both nations hold talks in Canberra this week, *The Australian* has also learned the latest offer by US negotiators would mean up to 80per cent of American farm produce would be off-limits to Australian competition in the first year.

The offer - which would open up only one-fifth of US primary industry - would mean sensitive areas such as beef, sugar and dairy were off-limits. Australia's \$5billion-a-year Pharmaceutical Benefits Scheme provides subsidised drugs to consumers at affordable prices, but it is under attack from the powerful US drug company lobby because the industry claims it depresses the prices.

US President George W. Bush also raised concerns with John Howard during talks in Canberra on Thursday about the political difficulties he faces in the US over perceptions drug prices are too low in Australia.

But he has instructed US negotiators to get a deal by the end of the year.

Any relaxing of restrictions on the approval and pricing process for the \$4billion-a-year subsidised drugs scheme is politically sensitive for the Prime Minister because it would mean higher drug prices for Australian consumers. US Trade Representative Robert Zoellick has referred to Australia's PBS as a "pharmaceutical protection system", signalling the US wants changes.

He has also expressed concern about Australia's quarantine system and restrictions on foreign investment.

"(We have) issues dealing with foreign investment, dealing with cultural carve-out, dealing with (Australia's) pharmaceutical protection system as well as a series of market access issues," Mr Zoellick said at the APEC summit in Bangkok last week.

But Health Minister Tony Abbott said yesterday the PBS would not be negotiated away in a free trade agreement.

"The Pharmaceutical Benefits Scheme will not be a bargaining chip in these negotiations and frankly, it shouldn't be, because the (PBS) does not discriminate between overseas and locally produced drugs," Mr Abbott said.

"It is not a trade instrument ... it is an instrument for ensuring that Australians get reasonable access to affordable drugs."

Trade Minister Mark Vaile maintained the US had only formally registered concerns about delays in getting products approved for the Australian market, rather than the structure of the scheme.

Mr Zoellick also revealed in Bangkok last week that the US did not propose an immediate major increase in market access for Australian farmers.

He said under the latest US offer on agriculture - already described as inadequate by the Howard Government - lamb and "some 21per cent of our products" would have protection eliminated in the first year. But Australian officials pointed out lamb had virtually no tariff now in the US - and the comment suggested that almost 80per cent of American farm products would initially retain existing levels of protection.

Mr Zoellick did not say which products were in the 21per cent. But they are almost certainly not the sensitive areas like beef, dairy, sugar and cotton.

For those, it appears the US would phase in increased access for Australian products over years - possibly up to a decade or more.

Trade negotiators from the US and Australia hold their penultimate meeting in Canberra this week and the offers from both sides have been kept from public view.

Mr Vaile said yesterday there was a better than 50per cent chance of negotiating an agreement by Christmas, but Australia needed to ensure it was locked in before the US was distracted by domestic issues in the lead-up to an election.

This report appears on news.com.au.