

How generics boss clinched the deal

 By Megan Brodie

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Arrotex CEO Dennis Bastas

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As founder and CEO of the largest supplier of generic drugs in Australia, it is somewhat surprising that Arrotex boss Dennis Bastas has previously removed himself from negotiating major agreements that govern how the industry he dominates interacts with its largest buyer.

The homegrown entrepreneur and top businessman says he never felt the need to get involved – until last year.

“I’m probably the longest-serving pharmaceuticals CEO in this country – I’ve been CEO of my own company for 20 years and I stayed in the background when it came to government negotiations. I just got on with business,” he tells *MedNews*. “I stepped up because there was a problem to solve.”

That problem was an increasing struggle to source and secure the most commonly used drugs in Australia – the antidepressants, antibiotics, statins and diabetes drugs that form the bulk of PBS volume. Ongoing price cuts meant the issue was

escalating and, when Covid hit causing demand for the drugs to spike, the problem turned into a crisis.

“We were making calls all night, making sure our order wasn’t displaced or moved down the rung,” he says. “At times we had to pay a premium but we sucked that up.”

While most manufacturers work on a margin of around 30 to 50 per cent, Bastas says suppliers were getting mark-ups of up to 300 per cent due to increased demand from countries in the Middle East, Southeast Asia, the Pacific, and Eastern Europe.

“They all paid more than we do. Manufacturers were lying to us, telling us our order was delayed or hadn’t been delivered on time. The truth was they were prioritising other customers.”

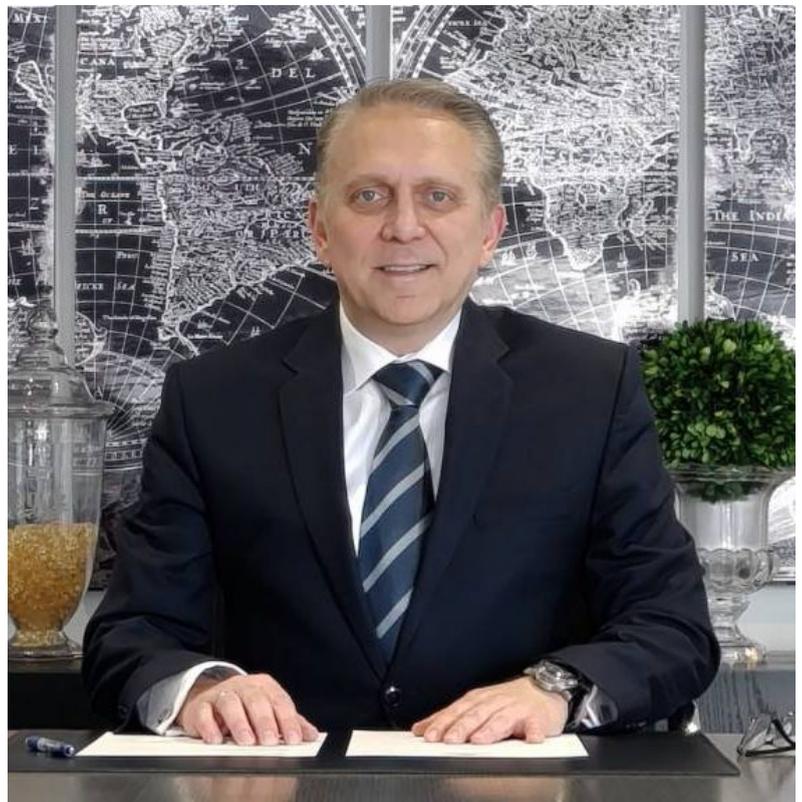
Checks and balances in pricing

When Health Minister Greg Hunt signalled he was ready to negotiate a new five-year Strategic Agreement with the GBMA last year, Bastas took the opportunity to tackle the problem.

“I came in to solve a problem, not to make it a burden on taxpayers. I figured there had to be a way to do this and for it to be cost-neutral. That’s what we’ve done.”

“It took a while for the government negotiators to understand what we were trying to do but Greg Hunt and the Department understood there was a problem to solve. I agreed we would make it cost-neutral and they embraced that. We kept at it until we found a solution that worked.”

That solution was inked in the new Strategic Agreement Bastas signed on Monday, putting the brakes on price cuts for generic drugs once the price reaches a point where further cuts would make the product unviable – a point where Bastas says up



Bastas signed the GBMA Strategic Agreement on Monday

to 90 per cent of the original value has already been wiped off. To make it cost-neutral for the government, deeper and earlier price cuts will be introduced for newer drugs.

“It’s accelerating the price disclosure benefits at one end and decelerating and stopping them at the other end,” he says.

For its part, the generic industry has agreed to keep a minimum of six months’ stock of the commonly used antibiotics and other essential medicines onshore, providing Australia with a buffer for future global events that impact supply.

Onshore stockpile to cost \$150 million

Bastas believes the increased onshore stockpile will cost the generics industry \$150 million, up to \$90 million of which will be borne by Arrotex.

He expects an additional 50,000 pallets of stock to arrive before the end of next year and his company will now work with its wholesalers, Symbion and Sigma, to cope with what in some instances will mean a tripling of stock as he orders up to 18 months supply.

“If there was a chance in that 18 month period that the price of that drug might be cut, then I couldn’t afford to buy that much stock and to stockpile it,” he says. “What the government had to do was agree these drugs could no longer take further price cuts.

“The beauty of this type of stockpile is that while we are utilising the stock, we keep turning it over. Investing in the stock will also increase sales as we lose sales when we can’t supply a product. If I’ve got stock, I can make sales.”

Also instrumental in the deal was the GBMA’s chair, former Department of Health Secretary Jane Halton, who Bastas says helped keep the negotiating process transparent.

“We were all in this for the right outcome,” he says. “We all feel we’ve got the right solution but we also understand there are a lot of moving parts here, so there is a review mechanism in the agreement.”

With the deal now requiring legislation to be passed by the Parliament and further work to ensure it is implemented as per the intent of the agreement, Bastas says he’s not yet ready to walk away.

“I’m in this until it’s done,” he says, and with two decades of experience in business negotiations, the generics industry can only benefit from Bastas continuing to be involved.

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