

# CALLS FOR INCREASED DOMESTIC PHARMACEUTICAL PRODUCTION NOT WARRANTED, SAY HERBERT SMITH FREEHILLS EXPERTS

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Increased commentary about Australia's perceived vulnerability to pharmaceutical shortages have led to recent calls for an overhaul of the country's domestic pharmaceutical manufacturing capabilities.

But Herbert Smith Freehills experts say strengthening existing pharmaceutical import supply chains would be a more prudent and economically sensible solution.

In an article published today, partner [Shaun McVicar](#) and senior associate [Emma Iles](#) say concerns about vulnerabilities due to the country's dependence on imported medicines are genuine, but that ramping up domestic production is not the solution.

Mr McVicar, the global co-leader of Herbert Smith Freehills' pharmaceuticals sector, said the Covid-19 pandemic had led to further calls for countries to restart recently abandoned manufacturing industries.

"There have been calls for a greater focus on domestic production to mitigate the risk of supply chain disruptions and medicine shortages," Mr McVicar said.

"The argument is that a greater investment in domestic capabilities will decrease dependence on unreliable international supply chains for strategically important or essential products, such as medicines.

“But given current global and local dynamics and economic and political factors, we see greater benefit in strengthening our ties to those countries that provide the majority of our pharmaceutical supplies and working with them to ensure access is maintained.”

He said supply chain concerns were primarily centred around manufacturing bottlenecks in China and India.

“Despite upstream disruptions in China and India, Australia’s supply chains for pharmaceuticals have proved resilient so far, aside from the initial panic buying of over the counter products,” he said.

“The Australian market accounts for less than two per cent of the world’s total pharmaceutical market. Margins are thin, local growth opportunities limited, and domestic manufacturing capability is retreating. It is clear there is little commercial attraction to bringing back pharmaceutical manufacturing without a significant change in market dynamics and most likely Government intervention and investment.”

Ms Iles explained that recent government initiatives had helped to mitigate Australia’s risk of a shortage in pharmaceutical products.

“Australia has a National Medicines Stockpile and the government recently announced an additional investment of \$1.1 billion to increase the supply of PPE and pharmaceuticals held in the Stockpile in response to Covid-19,” she said.

“This investment, coupled with pharmaceutical shortage reporting requirements, provide the Commonwealth with effective tools to help deal with the most significant impacts of any future shortages.

“There are a number of domestic limitations which make imports from more efficient markets and producers more desirable. In fact, more than ninety per cent of Australia’s medicines are imported and this percentage has increased markedly over the last decade as local pharmaceutical operations of global companies have been scaled back or mothballed in favour of producers in locations with a comparative advantage.”

Ms Iles said the supply chain risks that commentators have been warning about, and which are said to warrant Commonwealth government intervention have not materialised.

“Consistent with Australia’s position on global trade, to the extent that supply chain bottlenecks and risks are a genuine security concern, we contend that Australia would get more ‘bang for its buck’ by encouraging its trusted allies with domestic and accessible export markets of a sufficient size and dynamic to boost their own domestic manufacturing capability,” she said.

“Doing so would increase the range of alternative, reliable and transparent supply sources for Australian medicines.”

For more information please see our legal briefing [Manufacturing Medicines in Australia: examining the need for increased domestic capability.](#)

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