Appendix D

AUSTRALIAN ASSOCIATION OF PATHOLOGY PRACTICES INC

The Role of Small-Medium Private Pathology Practices in Australia

Following 20 years of consolidation of pathology laboratories, approximately 75-77% of Medicare outlays for pathology are for services provided from the private sector by three large, publicly listed companies:

1. Sonic Healthcare;
2. Primary Health Care-Symbion Health; and
3. Healthscope-Gribbles.

Approximately 10% of Medicare outlays for pathology are for services provided by the government sector through state-owned pathology providers mainly attached to public hospitals. These pathology services are now commonly organised on an area, region or whole-state basis.

The remaining 13-15% of Medicare outlays for pathology services are provided by:

A) The "Not-for-Profit" sector: pathology services are commonly established in hospitals associated with various religious orders. These pathology services often extend to providing pathology services in the community outside the hospital environment;

B) Small to medium private pathology companies providing a wide range of pathology services across all pathology disciplines; and

C) Small niche ("boutique") private pathology companies providing pathology services in only one or two pathology disciplines such as histopathology, cytopathology, microbiology or IVF specialised testing. Some of these more specialised services may be involved in the development of new and emerging tests not funded under Medicare.

Small pathology laboratories as described in categories A) to C) provide a number of benefits to patients and the community under the current Medicare arrangements, including providing alternative ownership models to the larger corporatised pathology structures in the private and government sectors. These different models of ownership allow small laboratories to:

a. Allow specialist pathologists to own and manage their own pathology service provided;
b. Develop niche areas of specialist expertise, including in some fields of low volume testing;
c. Allow some stand alone private hospitals, including in the "Not for Profit" sector, to provide internal pathology services; and
d. Enhance competition. Competition has been an important element in maintaining affordability of testing for patients (as evidenced by pathology's high rate of bulk billing), in maximising patient access to pathology services through the geographical spread of collection and testing within Australia, and in ensuring the currently high quality of pathology testing in Australia. Competition policy demands that a level playing field should exist for both incumbent and new players in the pathology market.

The Medicare funding reduction of pathology testing, in real terms, over the past 20 years, has resulted in a large reduction in the number of small to medium sized laboratories, reflecting their difficulty in achieving cost containment (see separate Australian Association of Pathology Practices (AAPP) papers). However, small laboratories will continue to be strong competitors in price, access and quality of service.

The AAPP continues to support the benefits delivered to the Australian community by our small and medium sized laboratories.