

are selling at \$170 a 1,000 to the druggist, or a difference there of over 1,800 percent. How do you justify the failure to allocate in your bid enough of all of these built-in costs, et cetera, to a Federal Government bid as against taxing so very heavily the patient of the doctor and the customer of the druggist?

Mr. CONZEN. I would like to comment on this. First of all, the basis of our business is the prescription business and the business which flows through the pharmaceutical wholesale and retail trade. Government agencies purchase pharmaceutical products in large quantities on the basis of competitive bids. Such orders may be highly attractive and many companies are convinced that these orders should be sought even at prices which would be unprofitable if normal accounting practices were followed.

They do this in the belief that such business should be regarded as incremental business, and that only additional cash out of pocket incremental costs directly traceable to the specific order should be considered. Incremental costs are the specific net additional cash costs of that order alone, namely raw materials and variable direct labor costs. They do not include even such other manufacturing costs as those for labor supervision or for plant and equipment and its maintenance.

No thought is given to any other costs of business operation, be it research and development, for marketing, for administration, taxes, and so forth.

They also sometimes ignore even these low incremental costs, if this is done, on the theory that widespread use of a branded product in Government hospitals has a net insignificant promotional value, and that doctors who use products in Government institutions or military practice will carry over their experience to private practice.

The effect of this practice is to establish a two-price system, a normal price for regular sales on the basis of which the business is built, and a lower price for incremental or "plus" volume. This is not unlike the system of printers who quote a base price for the first 1,000 copies of a job, and a much lower price for a second 1,000. Even though there are substantial economies in handling single large orders, as well as economies in sale to Government agencies as opposed to wholesalers and retailers, any real accounting effort to determine the full cost of products sold to Government agencies would show the cost to be higher than the prices which are typically quoted for Government prednisone business, not only by others in the industry, but also by Schering. We at Schering could no more operate our whole business on the basis of prices quoted to the Government or its agencies than could printers on the basis of prices for "extra" copies.

Senator JAVITS. Now, what about the differential between what you charge domestically and what you charge abroad for the same type of customer?

Mr. CONZEN. There are many reasons why there are differences in pricing abroad and at home.

Senator JAVITS. What is the difference first? Can we get that?

Mr. CONZEN. First the difference. There has been in our newspapers over the last weeks, they have carried the story that Schering sells prednisone, Meticorten tablets, 30 for 37 cents, stated in U.S. dollars, in Mexico when its price in the United States is \$5.65 to the drug trade.