

it is being prescribed by physicians. The reason it is in our depot system is because we are getting a more favorable price through that channel, rather buying it on the open market under the Federal supply contract or from the manufacturer itself, so considerable savings is achieved.

Senator NELSON. For the exact formulation of that?

Mr. STATLER. For that particular formulation, right. Let's say Darvon. If they want Darvon and continue to prescribe it, if the best price we can get is to negotiate with the manufacturer and depot stock this, then the very fact we have to continue furnishing Darvon, the best thing to do is get the best possible price through our depot system, so we are able to achieve significant savings in that manner.

Senator NELSON. How do you know you achieve a saving if you selected a brand name for which there is no competitor?

Mr. STATLER. Because we know what the market price is, what it is to the outside pharmacists, what it is to other hospitals.

Senator NELSON. But all you are able to say about that is that you get a price more favorable than the wholesaler?

Mr. WHITWORTH. Sometimes, yes, sir. Very often.

Senator NELSON. But you don't know whether that is a fair price. All you know is that it is a somewhat better price than somebody else is paying.

Mr. WHITWORTH. Relatively, sir, we know that it is a very good price.

Senator NELSON. We have had many examples, you know—and I am sure you are familiar with this—where the retail price of a brand name has been 10, 20, 30 times higher than the bid price a company will make to DOD or some other agency because then they have to compete; whereas in the retail market place, if they have a well-known brand name, they aren't really competing. The doctors are writing that brand name. So they can charge some astonishing prices but when they move to compete on a bid we find them dropping the price to one-tenth or one-twentieth.

Mr. WHITWORTH. Sometimes a great deal more than that.

Senator NELSON. Sometimes more than that. So you really don't know, do you, that it is a particularly good price if you just find out that it is better than the wholesaler is getting?

Mr. WHITWORTH. Of course, we are making quantity buys that most wholesalers do not make and the companies will give us a better price because of these quantity buys. Very often the larger the quantity the better the price.

Senator NELSON. GAO's comment about that is:

Without effective competition it is a question of the Government assuring itself that prices being obtained are fair and reasonable under negotiated procurements.

We had some astonishing cases of AID paying 2,000, 10,000, and 12,000 percent over the world market price on a particular drug because it was a sole source procurement. So what I am getting at is—if you have several drugs or molecular modifications of the same drug and if the therapeutic value of each is found to be the same, do you then evaluate the costs between the two therapeutic agents or are you ordering it simply because the formulary committee at the local level says we want this particular drug with this brand name?