

From 1964 to 1971 several studies have been made by the Defense Supply Agency and the General Services Administration, separately and jointly, to determine the feasibility of a single agency having Government-wide responsibility for management of various categories of supplies including medical materials. The studies indicated differences of opinion on the feasibility of consolidating the procurement and management of medical items. Decision on this has been deferred pending the outcome of a current study.

The Office of Management and Budget in January 1972 initiated a joint study by DOD, the General Services Administration, HEW, and VA to determine the lowest cost system or combination of systems to achieve maximum economy in meeting Government-wide needs for medical material, including drugs.

We believe that procurement costs can be reduced significantly by better cooperation and coordination between the VA and DPSC. However, the differences in their procurement practices, such as the respective volumes of procurements of brand name and generic items, use of specifications, and inspecting and testing requirements, must be reconciled to insure that drugs will be purchased at the lowest possible cost to the Government.

Studies by HEW covering world drug prices in 1970 and 1971 show that prices charged by manufacturers to druggists in the United States were generally higher than prices charged to druggists in other countries for the same drug. Recent comparative data is provided in appendix III.¹

Although drugs of foreign origin are frequently priced lower than comparable drugs of domestic origin the following factors influence procurement of the cheaper drugs:

1. FDA's New Drug Application (NDA) requirements. DOD and VA normally will not procure drugs which require an NDA approval from firms which do not have them. Foreign firms sometimes do not have the required NDA approval.
2. Inability of some foreign firms to satisfy American manufacturing standards for such matters as quality control and good house-keeping.
3. Possible legal action on patent infringements.
4. Implementation of the Buy American Act (41 U.S.C. 10 a-d).

For evaluating bids or offers of foreign firms for their products against offers of domestic products, civilian agencies are required by the Federal Procurement Regulations, which implement the Buy American Act, to add to foreign bids or offers a price differential equivalent to 6 percent, inclusive of import duties, or 12 percent, inclusive of import duties, if the low domestic bid is a small business or distressed labor area concern. Military departments generally add a price differential of 50 percent to bids or offers of foreign products, exclusive of import duties, for evaluation purposes, when a 6 or 12 percent differential, plus import duties, does not result in a greater evaluated price for the foreign products. This policy, I might add, applies all across the board in all Defense procurements, not just in this area.

The effect of adding these price differentials can be seen in a procurement of 310,464 units of tetracycline hydrochloride tablets by DPSC in April 1971. The low foreign bid was 85 cents a unit, excluding duty, and the low domestic bid was \$1.19 a unit. After an evaluation using

¹ See p. 8827.