

of methods of accounting, their capacity to decide whether they are making a profit or not, and on what they are making a profit. Do you mean to say that the drug companies really do not know whether they are making money on this drug or that drug, that they are just pouring out a lot of drugs, and at the end of the year, they are making a great profit, but they can just not tell us which one is profitable?

Mr. STAATS. They know what their total business is. They know what their profit is on pharmaceuticals and other products, I am sure of that. That is all public knowledge.

The statement has been made that product line cost is a matter of proprietary information which deeply affects their competitive position in the market.

Senator NELSON. Well, let's pursue that point. I understand that if there is a negotiated contract, the 1951 law authorizes the Government to examine the supplier's books to determine what are the costs of production.

Mr. STAATS. No, the truth in negotiation law. You are referring to 87-653, the Truth in Negotiations Act of 1962.

Senator NELSON. Oh, the 1951 is the applicable statute; is it not?

Mr. STAATS. Yes.

Senator NELSON. Can you tell me exactly what that law authorizes, what the authority is in that law?

Mr. STAATS. I think at the time the contracts are negotiated today, the basic law involved is the Truth in Negotiations Act of 1962, which generally requires in the case of negotiated contracts, that supplier furnish the Government contracting officer with all of his known costs: His labor costs, his equipment costs, his material costs, and things of this type.

Now, Mr. Shnitzer can tell you why that law does not apply in this case.

Mr. SHNITZER. Well, the Truth in Negotiations Act—

Senator NELSON. I want to know what law does apply; I do not care what does not apply.

Mr. SHNITZER. Mr. Chairman, I think we have to go back to the 1951 act, which is the act that you referred to. That act requires that any contract negotiated under the authority of either the Federal Property Act or the Armed Services Procurement Act, which would be the two basic statutes I am talking about, include a provision to the effect that the GAO shall for a period of 3 years after final payment, have the right to examine the records, essentially, of the contractor relating to costs.

Senator NELSON. Now, the GAO has a right to examine the records?

Mr. SHNITZER. The Comptroller General or a duly authorized representative; yes, sir.

Senator NELSON. All right.

Mr. SHNITZER. The statutory authority says that each contract, which comes within the ambit of what I am talking about here, shall include such a provision; and, as a matter of fact, such a provision is included in the standard boilerplate. As a practical matter, there would be no contract without such a provision.

Mr. STAATS. But that has nothing to do with access by the contracting officer to information at the time the contract is negotiated. That is the point I was making a while ago.