

You know, very frequently, they just drop something out of their product line because they are losing money. How do they decide if they are losing money if they cannot decide what they are making money on? I do not believe it.

But it seems to me we ought to use the law when we are having negotiated contracts time after time. We know that the public is being exploited on these things. We have a long record here of companies manufacturing in this country and selling their drugs in this country for five times what they sell it for in Europe. They manufacture it, package it, ship it to Europe and charge one-fourth as much. Well, if they do not know what it costs to produce it, how can they decide that they can sell it for one-fourth as much and still make a profit?

We have any number of cases where they are putting drugs into the retail marketplace, our 21 volumes are loaded with this type of material, where they are charging the pharmacists a high price and then just look at the bids to New York City, where they will be charging them 1/20 or 1/100.

We have a case of firms selling to New York City for 1/100 of the price they charge in the retail market, and they are glad to have the business. Yet they are outbid by somebody who bids one-third as much as their 1/100.

Now, I do not know how they can bid to New York City 1/100 of what they are charging in the retail marketplace if they do not know which product they are losing money on. It seems to me you ought to look at their books.

Which company is it that refuses to let you look at its books?

Mr. STAATS. We have not had a formal refusal from any company. We have not really felt that from the point of view of the major savings that could be achieved in the drug procurement area—the Government here is, after all, less than a 5 percent customer of the drug industry directly, when it comes to direct procurement—we have not felt that this was the most productive way to get at reduction of costs to the Government in that \$240 million area. We think the greater payoff is in the area of improving the coordination among the agencies, improving the procurement management. We have felt for several years, have testified before the Finance Committee 3 or 4 years ago, that for the purpose of increasing competition, the generic drug route is the most profitable aspect of this problem. I would hope that this committee would—I believe you do—support that. But if you want to get competition, you have to have common specifications. That is what we have learned in other areas of Government procurement. You cannot get competition unless you get common specifications and go out and get some competition. And you are not going to get that until you move down the generic drug route.

Senator NELSON. I agree with that, but you do have the Government engaging in negotiated contracts, apparently for drugs that are available from several sources, excepting that the specifications are designed by a producer in such a way that you eliminate the other competitors. How widespread that is, I do not know.

Mr. STAATS. I am not saying that that is a good idea, but I would prefer to see us focus on what a total output is from a drug manufacturer as to what his costs are in relation to what it costs the Government.