

12018 COMPETITIVE PROBLEMS IN THE DRUG INDUSTRY

AND COMPANY, MCKESSON LABORATORIES, AND STRONG-COBB-ARNER (NOW KNOWN AS ICN PHARMACEUTICALS) -- AND OFFERED TO PARTICIPATE IN THIS PROGRAM.

SOON AFTER THESE PROGRAMS HAD BEGUN, THE DEPARTMENT WAS SUBJECTED TO A LAWSUIT FILED BY THE PHARMACEUTICAL MANUFACTURERS' ASSOCIATION (PMA) CLAIMING THE VOLUME REFUND PROGRAM AND THE REIMBURSABLE COST LIST PRICE PROGRAM ILLEGAL ON THE GROUNDS THAT THE DEPARTMENT DID NOT FOLLOW PROPER ADMINISTRATIVE PROCEDURES IN ADOPTING THESE PROGRAMS. THIS FROZE THE TWO PROGRAMS AT THE LEVEL EXISTING IN JUNE 1972, AND NO FURTHER CHANGES WERE MADE. THEY REMAINED INTACT AND OPERATIONAL (BUT FROZEN FROM EITHER EXPANDING OR CONTRACTING) UNTIL THEY WERE FINALLY SHUTDOWN IN AUGUST 1973. EFFECTIVE IN AUGUST 1973 A NEW PROGRAM, THE CURRENT MAXIMUM ALLOWABLE INGREDIENT COST PROGRAM (MAIC), WAS ADOPTED. THIS PROGRAM SALVAGED A NUMBER OF THE ELEMENTS OF THE RCLP PROGRAM BY FOLLOWING A VERY STRICT COURT DICTATED ADMINISTRATIVE PROCEDURE THAT HAS NOW BECOME PART OF OUR DEPARTMENTAL REGULATIONS. THE PROCEDURE IS PRESENTED IN EVIDENCE AS AN ATTACHMENT TO THIS STATEMENT.

THE MAIC PROGRAM IS LIMITED IN THAT ONLY 125 GENERIC DRUG TYPES AND ONLY 5 MEDICAL SUPPLY CATEGORIES CURRENTLY ARE SUBJECTED TO PRICE CEILINGS. IN COMPLIANCE WITH THE ADMINISTRATIVE PROCEDURE, THE DEPARTMENT CHARTED DRUG UTILIZATION IN A DOLLAR VOLUME