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RE: Response to Charter of the Healthcare Group Purchasing Industry Initiative

I have had the opportunity to review the Charter of the Healthcare Group Purchasing Industry Initiative that was submitted to your office for consideration on March 14, 2005 and I appreciate the opportunity to provide comment.

As stated in the introduction, Group Purchasing Organizations (GPOs) provide a needed service to the healthcare provider community by aggregating purchases and contracting for lower prices. This service combined with some of the other services provided by GPOs constitute a core competency that providers may be challenged to provide within their organizations.

In reviewing the Charter, I have the following comments that should be considered prior to acceptance or adoption of this document:

- The Charter does not contain any "teeth" with regard to discipline, fines or other penalties for non-compliance with the established Code of Conduct and other Charter principles. Expulsion from HIGPA in itself does not hold the GPO's feet to the fire. Substantial fines and/or fees need to be spelled out in the charter that will ensure compliance with the established Code of Conduct.
- The Charter to a large extent is self-governing and as a result, questionable GPO practices that are still in existence (process of letting contracts, accounting for administrative fees) will most likely continue. Compliance with the Charter and associated policies and procedures should be administered by a third-party that does not have a conflict of interest with the group purchasing industry.
- Another element of the self-governing Charter is that no GPO will report another GPO for

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misconduct or other infraction of the Code of Conduct or established policies and procedures. Evidence already exists in the other two self-governing areas of pharmaceuticals and medical products & services. In these areas, vendors fail to report unethical and inappropriate activity of others in the coalition for fear of retaliation by those members.

- The Annual Public Accountability Questionnaire should not be confidential.
- To be effective, 50% of the Steering Committee and Working Group should be comprised of non-GPO (suppliers, distributors, providers) representatives to ensure that the ethics and the Code of Conduct is properly upheld by the GPOs. The Initiative Coordinator should not be associated in any way, shape or form with the GPO community.

After review of the Charter, the Principles and Membership, I am still convinced that the business and ethical issues that challenge the GPO industry will be removed with the elimination of the safe-harbor for payment of administrative fees. I will refer to you back to my presentation that I provided to you at our previous meeting. This presentation for an alternative process for administrative fees was shared with several suppliers and providers prior to and at the March 14, 2005 meeting in Newport Beach, CA. To summarize, the benefits of removing the safe harbor are as follows:

- Arms-length negotiations between the suppliers and GPOs will result in more competitive contracts.
- GPOs are encouraged to market the contracts they negotiate with the supplier to the providers in order to promote volume and earn their administrative fee from the provider.
- Providers receive reduced pricing by the amount of administrative fees the suppliers were paying to the GPOs.
- GPOs negotiate fixed or percentage fee agreements with the providers.
- Providers and GPOs receive cash timely.
- GPOs and suppliers do not need to perform complicated audits to validate purchasing volume to calculate administrative fees.

Thank you again for allowing me to respond to the GPO proposed Charter. If you have any questions or require any additional information, please do not hesitate to contact me.

Sincerely,

Vice President, Finance