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***NATION'S SECOND LARGEST HOSPITAL GROUP  
PURCHASING ORGANIZATION RELEASES BUSINESS  
PRACTICE COMMITMENTS IN RESPONSE TO SENATE  
ANTITRUST SUBCOMMITTEE INQUIRY***

Premier, the nation's second largest hospital group purchasing organization (GPO), today released a series of commitments intended to govern the operations of its hospital group purchasing arm, U.S. Senators Herb Kohl (D-WI) and Mike DeWine (R-OH) announced. Premier contracts for the purchasing of hospital supplies for nearly 25% of the nation's hospital beds. Its contracting decisions affect the purchasing of virtually every item a hospital buys to treat patients, everything from pacemakers to thermometers, from surgical devices and CAT scanners to Band-Aids and drugs.

"For more than a year, we have been investigating how medical supplies are purchased in this country. On the one hand, we have learned that a wide range of hospitals believe that GPOs save them a significant amount of money on medical supplies. On the other, we have heard a series of disturbing allegations about the impact of hospital group purchasing -- allegations about conflicts of interest, unfair contracting practices, and improper payments," said Kohl and DeWine.

"Last week, the Health Industry Group Purchasing Association (HIGPA) separately released an industry-wide code of conduct, and now Premier has undertaken a major effort to improve the way it does business. The Premier pledge is a big step above the industry standard and will help Premier to better serve the interests of its member hospitals and of patients," said Kohl and DeWine. "Just as important, we hope it will continue to reduce barriers to innovation in medical devices, to the benefit of all of us -- the patients. It is a unique and valuable approach to the problems of innovation and competition in the health care marketplace, and Premier's willingness to grapple with these issues is laudable and should be commended."

The HIGPA Code of Conduct and Premier's commitments were drafted at the request of Kohl and DeWine, the Chairman and Ranking Minority Member of the Senate

Judiciary Committee's Antitrust Subcommittee. The group purchasing industry agreed to draft a code of

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KOHL-DEWINE/GPO, page 2

conduct as a result of the Antitrust Subcommittee's April 30, 2002 hearing on the effects of hospital group purchasing practices on competition and patient care. Greater New York Hospital Association Ventures and The Center for Health Affairs of Cleveland, Ohio two regional GPOs, have also endorsed Premier's principles.

Kohl and DeWine expect to schedule future hearings in the Antitrust Subcommittee to examine the implementation of these principles and impact of these industry changes. At the request of the Subcommittee, the GAO and Federal Trade Commission continue to investigate various aspects of the GPO system

"Despite progress by the industry in general and Premier in particular, we believe that additional work remains to be done to ensure that medical innovators have an opportunity to sell their products and that competition can flourish to the benefit of patients and the entire health care system," Senators Kohl and DeWine stated. "The principles announced today by Premier do not address every concern that we had. But we believe that as the principles are implemented, they will be refined and improved and that gaps will be filled. Premier has pledged to us that they will work in good faith to do so and that they will continue to explore additional ways to ensure the availability of the best medical technology and the best ethical practices. Although Premier is a major player in the GPO market, it is only one of many. We hope other GPOs will follow Premier's lead."

The commitments made today by Premier operate in addition to the Code of Conduct released last Tuesday by HIGPA. Premier's additional business principles include:

- **Contracts for physician preference items will be made on a multi-source, unbundled, no commitment level basis;**
- **Vendor payments to the GPO will be capped at 3%;**
- **"Up front" administrative fees or marketing fees will be barred;**
- **Products from different vendors will not be bundled;**
- **Contracts terms will be limited to 3 years to the maximum extent possible;**
- **No private label programs; and**
- **Annual public reports of Premier's performance under the industry-wide code and its additional principles.**

**"We believe that Premier's commitments constitute the most significant reform to the hospital purchasing system since the development of the group purchasing system. If implemented aggressively, they could have an immediate and beneficial impact on the ability of competitive and innovative medical device companies to market their products to hospitals to**

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**KOHL-DEWINE/GPO, page 3**

**ensure that patients receive the highest quality health care," said Senators Kohl and DeWine.**

**"In the months ahead, we will continue to monitor developments in the hospital group purchasing industry closely and consider all appropriate measures necessary to assure that the needs of hospitals and patients are met."**

**An Antitrust Subcommittee investigation and April 30, 2002 hearing uncovered many allegations that GPOs were engaging in anti-competitive conduct. The Subcommittee received reports from physicians who believed they were being denied access to innovative medical devices vital to patient care. Further, as a result of these contracting practices, small and start-up medical device companies alleged they were unable to gain venture capital financing, a situation which they said threatens the future of innovative new technologies and medical products. The Subcommittee was concerned that GPO contracting practices may be a substantial barrier to medical innovation.**

**Another concern was allegations of conflicts of interest that gave the appearance that contracting decisions were influenced by corporate or individual financial gain. Further, questions were raised concerning whether GPO contracting decisions were motivated more by which vendor offered the higher administrative fee revenues - the commission on product sales paid by the vendor to the GPO - than which vendor offered the best products or the lowest prices.**

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