



February 9, 2012

Co-Chair Mitch Greenlick
Co-Chair Jim Thompson
Honorable Members of the House Health Care Committee
900 Court Street NE
Salem, OR 97301

HB 4109 GENERIC COMPETITIVE BIDDING WILL NOT SAVE MONEY FOR OREGON

Honorable Representatives of the House Health Care Committee:

The Generic Pharmaceutical Association (GPhA) understands and appreciates the intent of House Bill 4109, but opposes this legislation. Not only is the proposed “competitive bidding system” not feasible for generic manufacturers or any member of the supply chain, but it would not result in savings. GPhA represents the manufacturers and distributors of finished dose generic pharmaceuticals, manufacturers and distributors of bulk pharmaceutical chemicals, and suppliers of other goods to the generic industry. Generic pharmaceuticals fill 80 percent of the prescriptions dispensed in the U.S. but account for only 26 percent of total drug spending. GPhA’s 27 manufacturer members provide over 90 percent of generic medicines dispensed in the U.S. and GPhA’s 44 associate members represent stakeholders throughout the supply chain.

House Bill 4109 would establish a competitive bidding process for the purchase of generic drugs, purportedly to obtain the “lowest price.” However, this process would disrupt business practices throughout the drug supply chain, and it is unlikely manufacturers would be willing to participate. Generic manufacturers, in contrast to brand pharmaceutical manufacturers, exist in a commodity market with each generic drug having multiple manufacturers competing for extremely thin profit margins. Due to significant market and regulatory pressures in the generic market, competitive bidding may not be feasible and it is very doubtful any savings would be found. A change to this system, such as that proposed by HB 4109, would incur considerable additional administration costs for manufacturers, wholesalers, pharmacists, and the state.

Currently, generic drugs are sold to purchasers on a bid basis with the lowest cost drug winning out as long as reliability is guaranteed, making generic drugs an already highly negotiated commodity. Wholesalers and distributors receive extremely low prices because they purchase large quantities of generic products that supply thousands of pharmacies across the country. A system like the one proposed by HB 4109 would remove Oregon from these high-volume savings as no single state could meet the demand necessary for leveraging these low costs. Currently pharmacies see savings by purchasing generic medicine from wholesalers who obtain a nationally competitive price. Medicaid programs with high generic utilization benefit from these private sector negotiations. Additionally, generic manufacturers pay a 13% rebate to Medicaid, which in some cases amounts to **more** than the profit margins of the particular generic drug.

GPhA is also concerned about the unintended consequences of implementing this bill. There are over 3,000 different generic drug products listed in the FDA’s Orange Book and negotiating prices, awarding bids, and



contracting with manufacturers on each of these products on a regular basis would be a huge administrative burden. Moreover, such a system could be contradictory to federal law as the Medicaid program requires a drug manufacturer to enter into, and have in effect, a National Rebate Agreement with the Secretary of the Department of Health and Human Services (HHS) in exchange for State Medicaid coverage of most of the manufacturer's drugs. Also, certain generic companies have experienced various supply or manufacturing issues which cause drug shortages; if a contracted manufacturer had a supply issue and could not meet the demand for Oregon, patients may not have access to life-saving medicine. There is also a question as to whether pharmacies would have to double up on their inventory if the state contracted manufacturer was a different manufacturer than the one supplied by the wholesalers.

GPhA is committed to helping states find low-cost, high-quality solutions to health care needs throughout the country, but a generic bidding process like the one outlined in HB 4109 may do just the opposite. Adoption of HB 4109 would cause disruptions to the entire supply chain from manufacturers to local pharmacies in Oregon. Patients would likely be inconvenienced or unable to obtain their needed medicine, pharmacies will have increased inventory costs, Medicaid agencies will have more administrative burdens, and costs will probably not be lower than the national bidding process already in existence. For these reasons, we respectfully ask you to vote no on HB 4109.

Sincerely,

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