

Testimony of

The Honorable Orrin Hatch

April 30, 2002

Thank you, Mr. Chairman. I commend you and Senator DeWine for holding this hearing, as well as for your continuing efforts to get to the bottom of the important - and extremely complex - set of issues that we are addressing here today.

I believe we need to examine how Group Purchasing Organizations - or "GPOs" - affect the cost and quality of health care in America. Recent studies and media reports have called into question whether the GPO system has been effective in reducing costs without sacrificing the quality of products available to hospitals. However, GPOs, various academics, and certain industry participants continue to argue that GPOs offer high quality products at significant savings.

I have received and considered numerous opinions from parties on both sides of the GPO debate, including health care specialists, academics, and industry participants both from my home state of Utah and around the nation. To say that there is widespread disagreement among the participants of this debate would be a considerable understatement. News sources, commentators, and industry analysts offer diverse opinions regarding whether the GPO system helps or harms hospitals, consumers, and competition. Well respected academics similarly disagree.

Although I believe that the concerns raised by those who are critical of GPOs certainly warrant further analysis and consideration, I do not feel that we have sufficient information to reach any solid conclusions on the issues that have been raised. Despite the need for further investigation, I want to emphasize that - based on the information and analysis currently available - I have several serious concerns regarding certain actions and practices of specific GPOs, as well as the structure of the GPO system in general. Without going into detail, I would like to summarize some of these in the hope that we might address them as we go forward on this issue.

I am deeply disturbed by allegations that GPOs may prevent superior technologies and products from being adopted by the hospitals they serve. These claims have arisen in several distinct sets of circumstances, all of which raise significant questions. I am concerned about recent press reports that senior executives have received or obtained stock or stock options from product suppliers, creating serious conflicts of interest that may have improperly affected GPOs' purchasing decisions. Similarly, reports that large GPOs have favored products produced or supplied by entities in which they have invested raise serious questions as to conflicts of interest.

I am also concerned about certain practices that may limit competition among small medical device manufacturers, leading to decreased competition and innovation. Allegations that large suppliers have effectively "bought" access to GPOs warrant further investigation to ascertain how widespread such activities are. Similarly worrisome are assertions that the products of favored suppliers are included in "bundled" or "sole source" contracts that create strong

disincentives for hospitals to purchase competing products, effectively shutting smaller competitors out of the market.

Finally, I note that many - perhaps even most - of the alleged harms and abuses raised by GPO critics have pertained disproportionately to the nation's two largest GPOs: Novation and Premier. The market shares of these two "super GPOs" dwarf those of the next eight largest GPOs. In fact, excluding Premier, Novation's estimated market share is roughly equal to the combined market shares of its four largest competitors. And, with the obvious exception of Novation, Premier's market share is almost three times that of its largest competitor. The enormous relative purchasing power of these two "super GPOs" - especially when coupled with allegations that this power has been used anticompetitively - raises obvious concerns. At this point, although it is unclear whether and to what extent the market power possessed by Novation and Premier has enabled allegedly anticompetitive practices, this question warrants further consideration.

I look forward to hearing from the witnesses testifying here today, and hope that they will address these important issues. I commend the members of this committee for their efforts to date, and hope that - in conjunction with the appropriate government agencies and with the help of industry participants - this committee will continue its attempt to get to the bottom of these important issues.

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