

April 27, 2009

Ms. Sylvie Dupont
Secretary of the Board
Box L40, Standard Life Centre
333 Laurier Avenue West, Suite 1400
Ottawa, ON, K1P 1C1

Re: Submission on the PMPRB's Revised Draft Excessive Price Guidelines

Dear Ms. Dupont,

We write on behalf of McKesson Canada with regard to the Revised Draft Excessive Price Guidelines that were released on March 27, 2009. Specifically, we would like to comment on the revisions to Price Reviews, the Resetting of Non-Excessive Average Price After Introduction, and the DIP Methodology. We would request that this be received as a submission on behalf of our company.

Background and Context

Pharmaceutical wholesalers are the gears in the Canadian drug supply chain. Though patients do not directly see the impact of and may not even be aware of them, pharmaceutical wholesalers play a vital role in making drug access and distribution possible. Wholesalers provide significant savings and efficiencies for retail and hospital pharmacies by being the one source for all inventory needs, by streamlining procurement & inventory management activities, and by ensuring same or next day delivery. In fact, if wholesalers did not exist, a Booz Allen Hamilton study estimates that it would cost the Canadian pharmaceutical industry an additional \$900 million per year to provide daily deliveries of pharmaceuticals.

McKesson Canada (<http://www.mckesson.ca>) is the country's largest wholesaler and distributor of pharmaceutical products, providing logistics services for over 40% of the \$20 billion of pharmaceuticals shipped in this country every year. We service both the generic and brand name drug industries. Nationally, we operate 18 distribution centres which employ 2,500 people. Our services extend to 6,800 pharmacies, 1,350 hospitals, nursing homes, clinics and other points of pick up where patients retrieve their prescription drugs. We help Canada's pharmacists provide vital drugs to patients in a timely and efficient manner.

McKesson Canada has, and will always be, focused on improving both the efficiency and the quality of healthcare delivery in all of Canada. Some of the ways we accomplish these goals include:

- Our Pharmaclik web-enabled ordering tool, the largest e-commerce site in Canada, which is being used by over 90% of Canada's pharmacies to streamline inventory and order management, thereby allowing pharmacists to spend more time with patients.
- As a strictly controlled and monitored channel, McKesson Canada serves the interests of Canadians by safeguarding the integrity of the pharmaceutical supply chain with rigid standard operating procedures (e.g., premium cold chain) and preventing the infiltration of counterfeit products.

- Our same-day and next-day deliveries, often available 6 days a week, with no order minimums help reduce inventory carrying costs for retail pharmacies, while ensuring that patients receive their prescribed drug therapies in a timely manner.
- Pharmaceutical manufacturers also benefit from McKesson Canada's geographical coverage and service frequency, reducing the need to maintain expensive distribution infrastructures to serve the entire country, from the populous urban constituencies to the most remote rural areas.

Our business revolves around the buying and selling of pharmaceuticals. Our revenues are derived from:

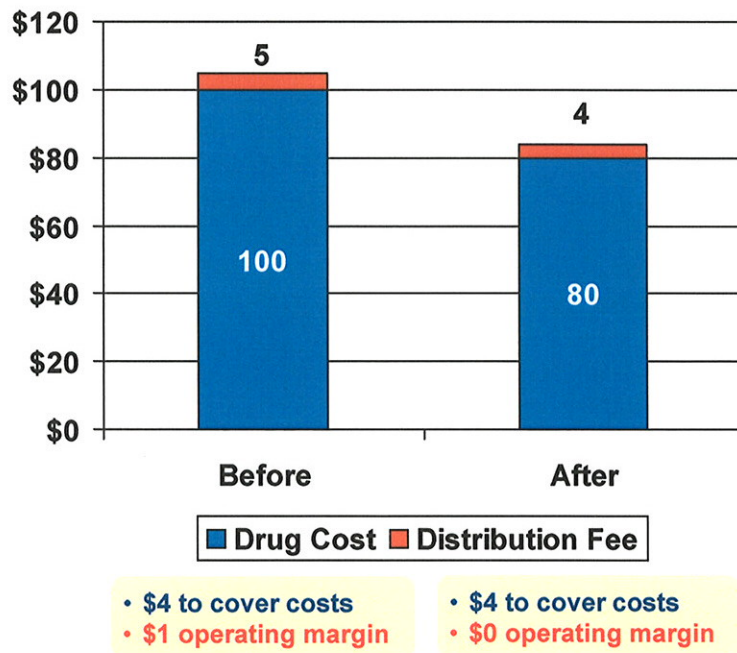
	Wholesale Upcharge	Service Fees
Description	• A percentage markup on the cost of a drug	• A percentage cost-based distribution fee
Who Pays	• Pharmacies (but reimbursed as part of the distribution allowance under provincial & private drug plans)	• Generic manufacturers • Manufacturers (for hospital distribution outside Quebec) • Hospitals in Quebec
Applicable Drugs/ Markets	• Brand-name pharmaceuticals • Quebec hospital market	• Generic drugs • Hospital markets outside Quebec

Though we are neither consumers nor pharmaceutical manufacturers, the policies of the PMPRB do have an impact on our operations.

Both wholesale upcharges and service fees are calculated as a percentage of the value of the drug. As a wholesaler, we have no control over the federally/provincially established selling prices of the drugs we carry.

By virtue of our percentage-based upcharges and service fees, we can be significantly affected by government policy shifts that impact the pricing of pharmaceuticals (e.g., generic price reductions). As illustrated in the diagram on the right, any dramatic and/or rapid reductions in drug prices will reduce our reimbursement for the same level of service,

Illustrative Impact of a 20% Price Reduction on Consolidated Distributor Revenues



challenging our ability to maintain our current capacity and service capabilities within the pharmaceutical supply chain.

Prior to and since the release of the original Draft Excessive Price Guidelines last August, McKesson Canada has faced two challenges as a result of manufacturers being concerned about the impact on their business.

1. Vendor Cash Discounts

The Vendor Cash Discount (VCD), also known as a Prompt Payment Discount, is a commonly accepted business practice in most industrialized countries that encourages buyers to pay outstanding invoices sooner. For example, “2% 10 net 30” means that the buyer must pay their bill within 30 days, but they can also get a 2% discount if they pay their bill within 10 days. VCDs are explicitly recognized as a legitimate business practice that does not impact on drug pricing decisions by the provincial drug plans of Ontario, Quebec, British Columbia, and New Brunswick.

Over the past decade, manufacturer-granted VCDs (to purchasers, such as McKesson Canada) have gradually decreased to 1.5%, 1%, or have even been discontinued completely. This is well below the average level of 2% in other industries as well as pharmaceutical markets in other countries. With 94% of the \$20 B retail pharmaceuticals in Canada shipped via consolidated channels, every 0.5% drop in the VCD rate results in almost a \$100 M being pulled out of the industry.

McKesson Canada does not keep the VCDs it earns from manufacturer invoices, as we offer a full 2% VCD to our retail pharmacy customers due to:

- The need to encourage them to pay their invoices sooner
- Competitive pressures

Because of the decline in manufacturer-side VCDs, we are in fact subsidizing the VCDs we provide to retail pharmacies, instead of being a straight pass through from the manufacturer. The additive effect of disappearing manufacturer VCDs and the continuing cost pressures of pharmaceutical wholesaling (e.g., bad debt, volatile energy prices, generic price reductions, and new regulatory requirements) may force us to stop offering VCDs to retailers, which will have several implications:

- VCDs are an important source of profitability for our retail pharmacy customers
- VCDs are a key instrument for encouraging our retail pharmacy customers to pay our invoices in a timely manner
- VCDs also serve as an ‘early warning system’ for us to detect pharmacy customers under financial duress— if a pharmacy begins to stop taking advantage of our VCDs, it is our experience that they will likely go bankrupt in a few months

When the original Draft Revised Excessive Price Guidelines were released last year, we were in the midst of negotiating with manufacturers on restoring their VCDs to the 2% level. Unfortunately, due to widespread misunderstanding of the PMPRB’s intentions, some manufacturers believed that restoring their VCDs to the 2% level might lower the excessive price ceiling for their patented drugs.

2. Compassionate Use & Special Access Programmes

McKesson Specialty (<http://www.phase4health.com>) is a division of McKesson Canada that offers strategic, clinical, consulting, patient support services, and customized distribution to the pharmaceutical, biotech and medical device industries. These services consist of:

- Late Phase Trials and Registries
- Health Economics
- Reimbursement Management and Payer Relations
- Patient reimbursement assistance
- Care coordination
- Education

As part of our service offerings, we administer Compassionate Use and Special Access Programmes (SAPs) on behalf of manufacturers, ensuring that patients can affordably access new drug therapies.

Unfortunately, there was concern among manufacturers that they would be penalized with a reduced excessive price ceiling by providing their pre-Notice of Compliance drugs at an artificially low cost through Compassionate Use, Investigational Drug, or SAPs. This in turn resulted in manufacturers choosing to either discontinue existing programs or not offer new programs. The result was that our financially strapped patients with critical medical conditions such as rheumatoid arthritis, multiple sclerosis, and cancer had fewer options to access the drug therapies that they had been prescribed.

Our Comments on the Revised Draft Excessive Price Guidelines

We are therefore pleased with the Revised Draft Excessive Price Guidelines, as the changes address these two challenges (VCDs and Compassionate Use & SAPs) that arose from the original Draft Excessive Price Guidelines released last year.

Based on our discussion with manufacturers and the teleconference that was hosted by the PMPRB for patentees on April 8th, it seems that there is still quite a bit of confusion on the part of manufacturers as to the impact of the revised guidelines on their pricing decisions and continued ability to grant benefits in markets. We would ask that the PMPRB help manufacturers truly understand the implications of the guidelines and are made to understand that it is in their best interest to continue offering benefits and the simple act of reporting such benefits will not penalize them with respect to future pricing decisions.

Price Reviews

We appreciate the additional clarification that has been provided on how price reviews will be conducted. The use of the National Average Transaction Price to calculate excessive revenues dispels the concern of manufacturers that restoring VCDs to historical levels would lower their excessive price ceiling within the wholesale market.

Resetting the Non-Excessive Average Price After Introduction

We are pleased to see that additional clarification has been provided on the PMPRB allowing the resetting of the Non-Excessive Average Price of a patented drug after it receives an NOC if the drug was first sold on a compassionate basis as an Investigational New Drug or through the Special Access Programme. Manufacturers who provide such programs should be more at ease that they will not be penalized for offering SAPs and Compassionate Use programs, which will make it easier for our financially challenged patients to access the vital drugs they need.

DIP Methodology

The Revised Draft Excessive Price Guidelines provide additional clarity on how the DIP methodology works, as it dispels the misconceptions of manufacturers who thought that any benefits they granted would lower the excessive price ceiling or trigger a price review, which in turn should help in restoring the balance between manufacturer-side and retailer-side VCDs.

Conclusion

As Canada's largest wholesaler and distributor of pharmaceutical products, McKesson Canada plays an important role in the drug supply and access system. We ensure that drugs are made available to the patient in a timely and efficient manner, whether it is through wholesale distribution to pharmacies or individualized service to patients via our administration of Compassionate Use and SAPs.

We agree with the changes presented in the Revised Draft Excessive Price Guidelines, particularly those with respect to Price Reviews, the Resetting of Non-Excessive Average Price After Introduction, and the DIP Methodology. These clarifications help dispel misconceptions about the intentions of the PMPRB, which were obstacles to restoring the imbalance between manufacturer- and retailer-side VCDs, as well as ensuring that our patients have continued access to Compassionate Use and SAPs.

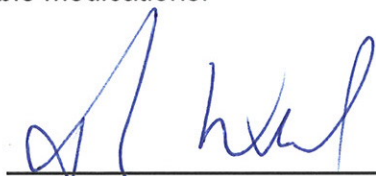
We would also ask that the PMPRB help manufacturers truly understand the implications of the guidelines and are made to understand that it is in their best interest to continue offering benefits and the simple act of reporting such benefits will not penalize them with respect to future pricing decisions.

We thank you for your consideration and commend you for your fine work in your efforts to improve the access of Canadians to affordable medications.

Sincerely,



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