

IN THE MATTER OF

THE AMERICAN ACADEMY OF ORTHOPAEDIC SURGEONS

SET ASIDE ORDER IN REGARD TO ALLEGED VIOLATION OF
THE FEDERAL TRADE COMMISSION ACT

Docket C-2856. Consent Order, Dec. 14, 1976 -- Set Aside Order, May 4, 1995

This order reopens a 1976 consent order, that was modified in 1985, -- which prohibited the respondent from initiating, publishing or circulating relative value scales for medical or surgical procedures -- and sets aside the modified consent order based on changed conditions of facts, such as, the decision by Congress to base reimbursement for medical services provided under Medicare on resource based relative value scales.

ORDER SETTING ASIDE ORDER

On November 23, 1994, the American Academy of Orthopaedic Surgeons ("AAOS") filed a Petition To Reopen and Rescind or Modify Consent Order ("Petition") in Docket C-2856 ("order"), pursuant to Section 5(b) of the Federal Trade Commission Act, 15 U.S.C. 45(b), and Section 2.51 of the Commission's Rules of Practice, 16 CFR 2.51. In its Petition, AAOS requests that the Commission reopen the order and rescind it or, in the alternative, modify provisions of the order that restrict the ability of AAOS to develop and distribute a relative value scale ("RVS"), as defined in the order.

AAOS asserts in its Petition that changed conditions of law or fact and the public interest warrant reopening the order and rescinding or modifying it. A redacted version of the Petition was placed on the public record for thirty days; no comments were received. For the reasons described below, the Commission has determined that the order should be reopened and set aside.

I. BACKGROUND

The Commission's complaint alleged, among other things, that the preparation and circulation by AAOS of comparative numerical values for services performed by orthopaedic surgeons had the effect of establishing or maintaining fees charged by orthopaedic surgeons for their services, in violation of Section 5 of the FTC Act. The

complaint also alleged that the numerical values were convertible into a monetary fee by application of a dollar conversion factor. The order, in relevant part, requires AAOS to cease initiating, publishing or circulating, in whole or in part, any relative value scale, as defined.¹ *The American Academy of Orthopaedic Surgeons*, 88 FTC 968 (1976).

The order does not prevent AAOS from exercising rights under the First Amendment to the Constitution to petition state or federal government agencies and to participate in federal or state administrative or judicial proceedings or from providing information or views to third party payers concerning any issue, including reimbursement. *The American Academy of Orthopaedic Surgeons*, 105 FTC 248 (1985) (modifying order).

II. THE PETITION

AAOS requests that the Commission reopen the order and rescind or modify it to permit the AAOS to provide information concerning Medicare resource based relative value scales ("RBRVS") to third party payers, managed care organizations, other physician organizations and others in the private sector, including its members. AAOS states that the information will facilitate the development and adoption of RBRVS that accurately reflect the values of orthopaedic procedures, resulting in the efficient allocation of resources. AAOS already has provided information to government entities involved in medical reimbursement issues; it wants to provide the information to nongovernment entities and to its members.

In particular, AAOS wants to be able to circulate the Abt Restudy, a physician work value scale commissioned by AAOS.² AAOS also wants to be able to sponsor and disseminate future research projects that analyze other components of the Medicare RBRVS.

AAOS cites as changed conditions the adoption and implementation by the federal government of resource based relative value scales for purposes of physician reimbursement under

¹ "Relative value scale" is defined in the order as any list or compilation of surgical or medical procedures that states comparative numerical values for those procedures or services. Order paragraph I.A.

² Noether & Sheehy, *The Abt Restudy of Physician Work Values for Orthopaedic Surgery* (Sept. 23, 1992), attached as Exhibit 8 to the AAOS Petition (hereafter "Abt Restudy").

Medicare. In 1986, Congress created the Physician Payment Review Commission ("PPRC") to make recommendations regarding physician reimbursement under Medicare. At that time, physician reimbursement was determined by the "customary, prevailing and reasonable" ("CPR") method, which relied on historical fees. The PPRC concluded that the CPR method increased costs under Medicare and recommended adopting instead a relative value scale based on resource costs.³ In 1989, Congress enacted the Omnibus Budget Reconciliation Act of 1989, which, among other things, requires use of resource based relative value scales for purposes of physician reimbursement under Medicare.⁴ The Act provides for consultations with "organizations representing physicians" to develop relative values for medical services.⁵

According to AAOS, the Abt Restudy was commissioned to respond to perceived shortcomings in Medicare RBRVS for orthopaedic services. *See* Petition at 13-15; Abt Restudy at 1. Providing the Abt Restudy to government entities is consistent with the proviso to the order,⁶ which permits AAOS to petition government agencies and legislatures. AAOS would like to distribute the Abt Restudy to third party payers and other nongovernment entities, such as other medical societies, and to individual members of AAOS, at least for the limited purpose of preparing AAOS representatives to lobby state government bodies regarding physician reimbursement practices. AAOS also would like to sponsor future research projects analyzing other components of Medicare RBRVS. According to AAOS, to the extent that it is precluded by the order from providing information concerning reimbursement levels, the efficiency of RBRVS-based systems is lessened, "payers who would benefit from more efficient payment mechanisms are hindered in their ability to compete, and physicians and patients are given

³ *See* Physician Payment Review Commission, Annual Report to Congress (1988); Physician Payment Review Commission, Medicare Physician Payment: An Agenda for Reform (1987).

⁴ Section 6102 of the Omnibus Budget Reconciliation Act of 1989, 42 U.S.C. 1395w-4. Medicare RBRVS bases physician reimbursement on (1) a relative value unit for the medical service, which is based on physician work, practice costs and professional liability costs; (2) a geographic adjustment factor; and (3) a conversion factor. Components of the RBRVS are to be updated periodically. Payment is based on the lesser of the RBRVS amount and the physician's actual fee. Petition at 12-13.

⁵ 42 U.S.C. 1395w-4(c)(2)(B)(iii).

⁶ 105 FTC at 249; *see* letter from Roberta S. Baruch, Deputy Assistant Director, Bureau of Competition, FTC, to Richard N. Peterson, General Counsel, American Academy of Orthopaedic Surgeons (May 12, 1993) ("staff advisory opinion"), Petition Exhibit 16.

distorted incentives and market signals for production and consumption of resources."⁷

III. STANDARD FOR REOPENING A FINAL ORDER OF THE COMMISSION

Section 5(b) of the Federal Trade Commission Act, 15 U.S.C. 45(b), provides that the Commission shall reopen an order to consider whether it should be modified if the respondent "makes a satisfactory showing that changed conditions of law or fact" so require. A satisfactory showing sufficient to require reopening is made when a request to reopen identifies significant changes in circumstances and shows that the changes eliminate the need for the order or make continued application of it inequitable or harmful to competition. S. Rep. No. 96-500, 96th Cong., 2d Sess. 9 (1979) (significant changes or changes causing unfair disadvantage); *Louisiana-Pacific Corp.*, Docket No. C-2956, Letter to John C. Hart (June 5, 1986), at 4 (unpublished) ("Hart Letter").⁸

Section 5(b) also provides that the Commission may modify an order when, although changed circumstances would not require reopening, the Commission determines that the public interest so requires. Respondents are therefore invited in petitions to reopen to show how the public interest warrants the requested modification. Hart Letter at 5; 16 CFR 2.51. In such a case, the respondent must demonstrate as a threshold matter some affirmative need to modify the order. *Damon Corp.*, Docket No. C-2916, Letter to Joel E. Hoffman, Esq. (March 29, 1983), at 2 [1979-1983 Transfer Binder] Trade Reg. Rep. (CCH) ¶ 22,207 ("Damon Letter"). For example, it may be in the public interest to modify an order "to relieve any impediment to effective competition that may result from the order." *Damon Corp.*, 101 FTC 689, 692 (1983). Once such a showing of need is made, the Commission will balance the reasons favoring the requested modification against any reasons not to make the modification. Damon Letter at 2. The Commission also will consider whether the particular modification sought is appropriate to remedy the identified harm. Damon Letter at 4.

⁷ Petition at 25-26.

⁸ See also *United States v. Louisiana-Pacific Corp.*, 967 F.2d 1372, 1376-77 (9th Cir. 1992) ("A decision to reopen does not necessarily entail a decision to modify the order. Reopening may occur even where the petition itself does not plead facts requiring modification.").

The language of Section 5(b) plainly anticipates that the burden is on the petitioner to make a "satisfactory showing" of changed conditions to obtain reopening of the order. The legislative history also makes clear that the petitioner has the burden of showing, other than by conclusory statements, why an order should be modified. The Commission "may properly decline to reopen an order if a request is merely conclusory or otherwise fails to set forth specific facts demonstrating in detail the nature of the changed conditions and the reasons why these changed conditions require the requested modification of the order." S. Rep. No. 96-500, 96th Cong., 1st Sess. 9-10 (1979); *see also* Rule 2.51(b) (requiring affidavits in support of petitions to reopen and modify). If the Commission determines that the petitioner has made the necessary showing, the Commission must reopen the order to consider whether modification is required and, if so, the nature and extent of the modification. The Commission is not required to reopen the order, however, if the petitioner fails to meet its burden of making the satisfactory showing required by the statute. The petitioner's burden is not a light one in view of the public interest in repose and the finality of Commission orders. *See Federated Department Stores, Inc. v. Moitie*, 425 U.S. 394 (1981) (strong public interest considerations support repose and finality).

IV. THE ORDER SHOULD BE REOPENED

AAOS has shown changed conditions of fact that require the order to be reopened to consider modification.⁹ The decision by Congress to base reimbursement for medical services provided under Medicare on resource based relative value scales, with the participation of physicians and medical professional societies in identifying and modifying RBRVS for Medicare purposes, is a changed condition that makes application of the order inequitable.

The order bars AAOS from "directly or indirectly initiating, originating, developing, publishing, or circulating, the whole or any part of any proposed or existing relative value scales," while the Omnibus Budget Reconciliation Act of 1989, among other things, requires use of resource based relative value scales for purposes of physician reimbursement under Medicare and contemplates

⁹ AAOS also cited changed conditions of law and the public interest. Because the order is set aside on the ground of changed conditions of fact, the Commission need not and does not consider the additional alleged grounds.

professional participation in the development of RBRVS. The Act requires the Department of Health and Human Services ("HHS") to consult with physician organizations in developing and modifying Medicare RBRVS. The order addressed conduct that allegedly contributed to the unlawful maintenance of fees by orthopaedic surgeons. It now appears that the order may inhibit participation by AAOS in the development and revision of RBRVS systems of reimbursement and thus may harm competition. Accordingly, the order should be reopened to consider modification.

V. THE ORDER SHOULD BE SET ASIDE

AAOS requests that the order be set aside or modified to permit AAOS to distribute the Abt Restudy and similar information to third party payers, other medical societies and its members.

The order, as modified in 1985, permits AAOS to "discuss[] relative value scales with governmental entities and third-party payers." 105 FTC at 248. The Commission, in modifying the order in 1985, concluded that the order's "restriction on [AAOS]'s ability to discuss relative value scales with third-party payers and governmental entities . . . caused injury to [AAOS] and the public that outweighed any benefit that might be derived from the restriction." *Id.* The Commission also observed that the modification was consistent with its opinion in *Michigan State Medical Society*, 105 FTC 191 (1983) ("MSMS"). Also consistent with MSMS, AAOS is not limited under the order to responding to requests from government and third party payers.¹⁰ AAOS "may have a useful role to play in offering suggestions and advice to third payers on a wide variety of issues, including reimbursement. . . . [T]he potential value of this role is not limited to responsive communications but extends . . . to similar communications initiated by" AAOS. 105 FTC at 308.¹¹

As the Commission recognized in MSMS, "there is some inherent danger in allowing any collective dialogue with third party payers on

¹⁰ The order, as modified in 1985, permits AAOS to discuss relative value guides with third party payers, but the staff of the Commission construed the order as barring AAOS from providing relative value guides to third party payers. See Staff advisory opinion at 3 ("[B]ased on the information we now have, we cannot conclude that it would be consistent with the order for AAOS to publish or circulate the Abt Restudy to the AAOS membership or to any non-governmental entity.").

¹¹ See also Advisory Opinion in *American Society of Internal Medicine*, 105 FTC 505, 510-11 (1985).

questions directly related to reimbursement amounts or policies."¹² Similarly, in modifying the order in AAOS, the Commission cautioned that "serious antitrust concerns would arise were AAOS to negotiate or attempt to negotiate an agreement with any such party or engage in any type of coercive activity to effect such an agreement."¹³ Such actions concerning terms of reimbursement could be examined under Section 5 of the Federal Trade Commission Act.¹⁴

AAOS also would like to provide copies of the Abt Restudy to other medical professional societies. The process of establishing and refining Medicare RBRVS involves consideration of recommendations from the AMA/Specialty Society RVS Update Committee ("RUC"),¹⁵ which is composed of representatives of major medical societies, including AAOS. The Abt Restudy could be useful to the RUC and ultimately to the Health Care Financing Administration ("HCFA"), which administers the Medicare program, in the review and refinement of Medicare RBRVS.¹⁶ The inability of AAOS under the order to disseminate the Abt Restudy to members of the RUC appears likely to hinder participation in the process sponsored by HCFA for identifying information relevant to revising Medicare RBRVS and could increase the costs to HCFA in obtaining such information. Such inhibitions resulting from the order would be inconsistent with federal policy as expressed in the Omnibus Budget Reconciliation Act of 1989 and the implementing regulations. The order should be modified to permit AAOS to disseminate the Abt Restudy to other medical professional societies.

Finally, AAOS would like to provide copies of the Abt Restudy to its members, at least for the "limited purpose of furthering the Academy's efforts to persuade government bodies to modify their own physician payment practices." For example, according to AAOS, "in virtually all states, the Academy has no members who have ever seen the [Abt] Restudy, and therefore no one to meet with

¹² The order in MSMS permitted the dialogue and addressed the risk by barring the medical society from entering into unlawful agreements with third party payers regarding reimbursement. 101 FTC at 308.

¹³ 105 FTC at 249.

¹⁴ See, e.g., Department of Justice and FTC Statements of Enforcement Policy and Analytical Principles Relating to Health Care and Antitrust, Statements 5 & 6, reprinted in 4 Trade Reg. Rep. (CCH) ¶ 13,152, at 20,782-785 (1994) ("Health Care Policy Statements").

¹⁵ Petition at 13, citing 59 Fed. Reg. 32,754 & 32,760 (1994).

¹⁶ See Petition at 18-19.

interested state officials responsible for compensation issues in Medicaid, workers' compensation or other medical programs."¹⁷

The prohibition on distribution by AAOS of relative value scales to its members is at the core of the order, because of the alleged effect of maintaining the prices charged by its members.¹⁸ Given the federal policy to rely on RBRVS for Medicare reimbursement and the increasing interest on the part of state governments and third party payers in relative value guides as a basis for physician reimbursement, however, the prohibition in the order on dissemination by AAOS may inhibit the contributions of its members to the development of RBRVS and increase the costs of disseminating the information.¹⁹ Allowing AAOS to distribute the Abt Restudy to its members would allow them to participate in an informed manner in lobbying activities before state government agencies. Accordingly, AAOS should be permitted to distribute the Abt Restudy to its members.

The danger that AAOS members will use the Abt Restudy or other relative value guides as a basis for an unlawful agreement to fix the prices for their services has not been eliminated. Although the federal policy to use RBRVS for Medicare reimbursement counsels in favor of setting aside the restriction of the order on distribution of relative values to AAOS members, AAOS and its members remain subject to the laws against price fixing. Setting aside the restrictions of the order should not be construed as approval for use by AAOS or its members of a relative value guide as a basis for an unlawful agreement on price.

In some circumstances, preparation and circulation by a medical society of a relative value scale may have anticompetitive consequences. For example, in *American Society of Internal Medicine*, 105 FTC 505 (1985) (advisory opinion), the Commission declined to approve a proposal to circulate a relative guide because of the "substantial danger that ASIM's proposed conduct would involve an agreement in restraint of trade among ASIM and

¹⁷ Petition at 26.

¹⁸ See also *Advisory Opinion in American Society of Internal Medicine*, 105 FTC 505, 510 (1985) ("[A]lthough the Commission cannot . . . predict that widespread concerted conformance to the RVG would necessarily result from its dissemination . . . the available information on this specific RVG proposal indicates that this type of agreement in restraint of trade is a substantial danger.").

¹⁹ As a practical matter, material submitted to the Health Care Financing Administration on the public record presumably is available to members of AAOS on request.

physicians to concertedly adhere to the RVG."²⁰ The Joint Health Care Policy Statements also caution that "information exchanges among competing providers may facilitate collusion or otherwise reduce competition on prices."²¹

VI. CONCLUSION

Accordingly, *It is ordered*, That this matter be, and it hereby is, reopened, and that the modified order in Docket C-2856 be, and it hereby is, set aside, as of the effective date of this order.

Commissioner Starek concurring in the result only.

²⁰ *Id.* at 511.

²¹ Health Care Policy Statements at 20,784.

Complaint

119 F.T.C.

IN THE MATTER OF

LOCKHEED CORPORATION, ET AL.

CONSENT ORDER, ETC., IN REGARD TO ALLEGED VIOLATION OF
SEC. 7 OF THE CLAYTON ACT AND SEC. 5 OF THE
FEDERAL TRADE COMMISSION ACT

Docket C-3576. Complaint, May 9, 1995--Decision, May 9, 1995

This consent order allows, among other things, the completion of the merger between Lockheed Corporation and Martin Marietta Corporation, and requires the merged firm to open up the teaming arrangements that each individual firm has with infrared sensor producers in order to restore competition for certain types of military satellites. The consent order also prohibits certain divisions of the merged firm from gaining access through other divisions to competitively sensitive information about competitors' satellite launch vehicles or military aircraft.

Appearances

For the Commission: *Ann B. Malester* and *Laura A. Wilkinson*.

For the respondents: *Richard Parker* and *David Beddon*,
O'Melveny & Meyers, Washington, D.C. *Raymond Jacobson*,
Howrey & Simon, Washington, D.C.

COMPLAINT

Pursuant to the provisions of the Federal Trade Commission Act, and by virtue of the authority vested in it by said Act, the Federal Trade Commission ("Commission"), having reason to believe that respondent Lockheed Corporation ("Lockheed"), a corporation subject to the jurisdiction of the Commission, has agreed to merge with respondent Martin Marietta Corporation ("Martin Marietta"), a corporation subject to the jurisdiction of the Commission, forming a newly created entity respondent Lockheed Martin Corporation ("Lockheed Martin"), a corporation subject to the jurisdiction of the Commission, in violation of Section 7 of the Clayton Act, as amended, 15 U.S.C. 18, and Section 5 of the Federal Trade Commission Act as amended, ("FTC Act"), 15 U.S.C. 45; and it appearing to the Commission that a proceeding in respect thereof