Bureau sf Competition
FEDERAL TRADE COMMISSION WASHINGTON, B.C.28W

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Bear Mr, Greenberg::

mis letter responds to your request Lor an informal
advisory opinion letter regarding the legality, under the laws enforced by the I0�er written

submission and supplemented in several telephone eonversatians,

Pacific International Health would be a for-profit esrpration operating in the Las Wngeles area, It would be pastisufarly designed to serve the health eare needs 0%Japanese and Japanese- Fanaesicans which, according to your client, are not being adequataly served by existing plans, but it would offer services

to individuals of all demographic groups, Its service area would include cornunities with significant oriental populations in the Los ~ngeles/~ong Ana primary

fnternational.Healt2awould be awned "lay 158 or fewer
physician ""raerabers-" "ckt neraber would pay the PPO an annual enrollment fee of $580, In addition, each member would pay the

BP8 a percentage (set by the PBO at between 5% and 15%) of any fees received for providing health eare services to beneficiaries

of any of the PPOb third-party payers, If the PPO" expenses exceeded its revenues, each meaer would be assessed an

additional amount. Pf the PPBh revenues exceeded its expenses, the PPO could decide to refund all or part of the excess to its

Richard C. Greenberg, Esq.
page two

pacific International Health expects that Its provider panel
of me&ers and contract physicians will be about 65% primcry care MysisPans and 358 specialists* TAe panel would comprise about 1% sf all physicians in

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3ichard C. Greenberg, Esq.
page three

Based an the above description af Pacific International
Health, it dses not appear likely that formation and operation sf the PPQ would violate the Federal Trade Coraraissian Act or a y
provision sf "te antitrust Laws enfareed by the Cornmi-ssion.f

In general, PPOs may be procompetitive by stimulating price, quality and service competition among physicians and third-party

payors. NsaetAeless, PPQs, particularly PP8s such as Pacific International Health that are established and operated by a group of providers, can raise several potential antitrust issues, Appropriate antitrust analysis of these issues seeks to determine wkzther the PPO would ultimately serve significantly to lessen competition in relevant markets rather than to stimulate it-

Since a physisian-e~ntro1I,edPP8 tpieally contains

physicians who offer similar medical services and are competitors in the same geographic area, its operation involves some
horizontal agreements among eompetitsrs, me nature of such agreements and their likely effects can determine whether the plan will operate anticompeririuely.

me first concern in the antitrust analysis of a provider- owned PBO is the extent to which the PP8 arrangement invslves

horizontal agreements among competing physicians to fix or set the price at which they will sell their services to be~efieiaries

of plans that have contracted that the PP6, Such zgreements may antitrust Paws, @ 457 O*S* 33

alth 3as bee
among physicians on price or price-related terms. Instead, there will be individual negotiations between each third-party payor and each physician provider,

Second, other agreements among PP8 physicians that restrain competition among them and are broader than necessary to assure efficient operation of the PP8 would be likely to violate the antitrust laws, For example, agreements among otherwise

mis advisory opinion is limited ta the proposed program described above. Lt does not apply- ts actions that are

different from those described,

For a discussion of the analyses applicable to price-related agreements amowg physicians members of a PP8, -see letter

from M, Elizabeth Gee, Assistant Director, Federal Trade Commission, to Michael A, Dunehean, March 17, 1986.

Richard Cs Greenberg, Esq,
page five

patients without being a melaber of the WO, then competition among PPB physicians and others will not be impaired by the operation sf the PPO, even if the PPO were to obtain a very large share af the market, Moreover, you estimate that the PP8 will obtain less than s 10% share of the services rendered, in the Japanese cornunities in the service area.

For