

THE IMPACT ON CANADIAN MANUFACTURERS & DISTRIBUTORS OF MEDICAL DEVICES COSTS DUE TO RAW MATERIALS AND FREIGHT FUEL SURCHARGES

WINTER 2005

ISSUE

MARKET CONDITIONS IMPACTING MEDICAL DEVICE MANUFACTURERS

(January 2004-December 2005)

- Oil costs have risen 76.5%. Steep cost challenges are faced by manufacturers whose products contain any plastics as oil is the primary raw material in most plastics.
- The rise in the cost of natural gas has caused a 56% increase in the HDPE resin index.
- Other raw materials components driving up the cost structure include: Vinyl Chloride Monomer (USD/lb) which rose from \$0.27 in January 2004 to \$0.40 in September 2005 and Chlorine (USD/Ton) which also increased significantly from \$205 in January 2004 to \$345 in September 2005.
- Annual trend increases are evident in distribution and freight costs for industry as changes in these costs are typically linked to 'Fuel Surcharge' factors. The surcharge as of October 2005 was 11.7%.

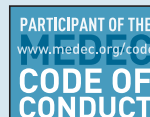
MEDEC'S POSITION

- In order for industry to produce medical technologies that ultimately deliver better care to more patients, improve health outcomes and enhance patient safety, access to medical device technology requires industry's partnership with its customers in trying to stabilize and manage the impact to raw materials and freight fuel surcharge costs.
- The impact of new costs, due to raw materials and the freight fuel surcharges are beyond the scope of Canadian medical device manufacturers to solely absorb if innovative medical device technologies are to be produced and distributed. Areas that could potentially be impacted include: service levels and inventory management; various value adds that are expected of manufacturers; training and ongoing support; and, the ability to invest and innovate with Canadian based customers.
- Timely and accurate information on costing needs to be communicated to customers just as suppliers share information with medical device manufacturers and distributors.
- MEDEC members are committed to working cooperatively and effectively with other health care partners, including health care professionals, patients, hospitals and associations, to enhance the quality and delivery of care and access to new medical technology therapies.
- It is a goal of MEDEC members to minimize this impact in order to continue to invest in our medical system for operational excellence and local innovation.



MEDEC

CANADA'S MEDICAL DEVICE TECHNOLOGY COMPANIES
LES SOCIÉTÉS CANADIENNES DE TECHNOLOGIE DES
DISPOSITIFS MÉDICAUX



BACKGROUND OVERVIEW

- Canadian manufacturers and distributors of medical device products work with their customers on managing pricing and supply costs.
- The steady and significant increases in oil and natural gas prices throughout 2005 have significantly impacted the cost of most raw materials used in the manufacturing and distribution of medical device products.
- Manufacturing and distribution companies have been receiving weekly notification from raw material suppliers regarding impacts on the cost of materials because of oil and fuel increases.
- The ability for Canadian manufacturers to produce innovative technologies and provide access to technologies is being impacted. The industry's cost position is under stress and is forcing a significant review of current business models which ultimately impact many medical device manufacturers' ability to operate in Canada.

MEDEC MEMBERS ARE COMMITTED TO WORKING COOPERATIVELY AND EFFECTIVELY WITH OTHER HEALTH CARE PARTNERS, INCLUDING HEALTH CARE PROFESSIONALS, PATIENTS, HOSPITALS AND ASSOCIATIONS, TO ENHANCE THE QUALITY AND DELIVERY OF CARE AND ACCESS TO NEW MEDICAL TECHNOLOGY THERAPIES.

ABOUT MEDEC

- MEDEC is the national industry association representing medical device and diagnostic companies. Our members are dedicated to serving the healthcare community through research and development and the provision of high quality medical products and services that benefit Canadians.
- MEDEC members are committed to advancing healthcare in Canada by ensuring patients have access to safe medical device technologies.
- Member companies represent a range of medical devices such operating room devices and hospital equipment as well as medical specialties such as cardiovascular, orthopaedic, ophthalmic, diabetes, and in-vitro diagnostics.
- MEDEC's mission is to strengthen and grow the industry in Canada by working closely with governments, medical associations and the public to establish an environment that supports the adoption of new technology from both regulatory and reimbursement perspectives.
- MEDEC members are committed to highest standards of professional conduct. Earlier this year, MEDEC designed and adopted a Code of Conduct to promote ethical business practices and socially responsible industry conduct to govern interactions with healthcare professionals.

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