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Vermont Pension Funds to Fight Pharma's Canadian Blockade

Montpelier – In response to decisions by several large U.S. pharmaceutical companies to limit supplies to Canadian pharmacies that allow reimportation of their prescription drugs to U.S. residents, Vermont's two largest pension funds have joined several of their counterparts in an effort to reverse those policies.

The Vermont teachers' and state employees' pension funds are cosponsoring shareholder proposals to be considered at the 2005 corporate annual meetings of Pfizer, Eli Lilly, and Wyeth Pharmaceuticals that request the companies to adopt policies that do not constrain the reimportation of prescription drugs into the U.S. by limiting the supply of drugs.

According to State Treasurer Jeb Spaulding, a board member of the Vermont teachers' and state employees' retirement systems and custodian of the pension funds, "States increasingly are using their investment leverage to get the attention of corporate management on a host of issues from corporate governance to environmental policies. Since hundreds of Vermonters get their prescriptions from Canada, and the State's largest city, Burlington, has a Canadian mail order program, this seemed like a logical effort to get involved in."

"I asked the boards to join the effort because, if unchallenged, the decision by these companies will impose a substantial and unnecessary hardship on many Vermonters who have found it necessary to buy their prescription drugs in Canada. In my view, as part owners of these companies, we should not sit idly by while management develops and implements such a shortsighted and punitive policy," Spaulding explained.

The importation of prescription drugs is a growing business. Canada has been a principal source for such exports to the U.S. These exports have grown from \$50 million in 1998 to nearly \$1 billion in 2004. State and local governments that provide health benefits to state employees, retirees, and others are encouraging reimportation. Minnesota, New Hampshire, North Dakota, Wisconsin, and Illinois have established Web sites to connect state residents with Canadian pharmacies the states have deemed safe. Vermont is suing the Food and Drug Administration for wrongfully denying permission to set up a reimportation program.

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According to the resolutions, depriving U.S. citizens of affordable access to company products may be harmful to brand name and reputation, and put the companies in conflict with programs supported by their customers. By actively limiting sales and creating artificial shortages of products, many of which are category leaders or the only drug available for a particular ailment, the companies are forsaking long-term market development and reputation for higher profits in the near term.

The pension funds are also concerned that the strategy entails regulatory risk. Retail pharmacies have filed actions before the Canadian Competition Tribunal alleging that limiting supply in Canada violates Canadian competition laws. In the U.S., class action status is being sought in Minnesota and Indiana federal courts alleging violations of U.S. antitrust laws.

“Naturally, we want these companies to make money for us, and I realize that they have many admirable attributes, but I do not believe the effort to block reimportation of products from Canada is necessary to protect either the interests of investors or the safety of consumers. Therefore, I consider the development and filing of a resolution that allows the shareholder owners to request reversal of this policy to be prudent and consistent with my fiduciary responsibilities,” Spaulding said.

Vermont is joining pension funds in New York, Ohio, and Maine, as well as the AFSCME Employees Pension Plan as a cosponsor of the shareholder resolutions. The value of the shares owned in the three drug companies by the two Vermont pension funds is in excess of \$25 million.

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