represent a much smaller segment of the total industry than is the case for all manufacturers when measured both in terms of total assets and total sales (see Table 6). On average, over the period 1953-1964 the loss companies in all manufacturing represent 16.40 per cent of total assets and 11.57 per cent of total sales; the loss companies in the pharmaceutical manufacturing industry represent only 10.92 per cent and 8.42 per cent respectively.

Risk is inherent in any enterprise. In the circumstances, the question is whether the risks for pharmaceutical manufacturers vary significantly from those for all manufacturing. The above analysis and review of the evidence before this Committee seems to indicate that, in comparison to manufacturing in general, the effect of losses on the pharmaceutical firms as a group does not indicate the presence of greater risk. In fact the rates of return on investment demonstrate that, over the period 1953-1964, the pharmaceutical industry in Canada has been increasingly less risky as compared with manufacturing in general. The rate of return for the pharmaceutical manufacturing industry has been consistently higher and, relative to the rate of return for all manufacturing, it has been increasing in this period.

Other Considerations

The Royal Commission on Health Services suggested that:

> "....the earnings of the Canadian drug industry are not a satisfactory test of the over-all pricing policies of the industry because they are understated". (Report, page 679)

This statement appears to recognize the possibility that prices paid to a foreign parent company by a Canadian subsidiary for raw materials purchased from the parent may result in some profit being diverted to the parent which is more properly attributable to the operations of the Canadian subsidiary. It would also appear to be in reference to what may be somewhat arbitrary charges by the parent to the Canadian subsidiary for research and management services performed by the parent company.

With respect to the prices paid for raw materials purchased from parent companies, there is little before this Committee to indicate what degree of diversion of profits may take place and therefore it is not possible to estimate what this "understatement of profit" may amount to for the Canadian drug manufacturing industry. However, one is inclined to believe that it probably occurs due to the lack of operation of free market conditions in dealings between parent and subsidiary.

With respect to payments by Canadian subsidiaries for foreign royalties and management services, some indication of the significance of this was given in the brief of the Pharmaceutical Manufacturers' Association of Canada. From the detail in this brief, it is estimated that, in 1964, the rate of net profit (before taxes, royalties and management fees) on total resources employed was 18.2 per cent for total operations and 24.5 per cent for human pharmaceuticals only. In the calculation of these rates an assumption made by Dr. Briant of the Pharmaceutical Manufacturers' Association of Canada was accepted and used (Minutes of Proceedings, page 574). This assumption may or may not be correct. If the assumption is in error the rates would be even higher: 20.4 per cent for total operations and 27.4 per cent for human pharmaceuticals only. These rates are significantly higher than those shown in Table 3.