

## PHARMACEUTICAL INDUSTRY

### REQUEST FOR TABLING OF APPLICANT'S LEGAL UNDERTAKINGS

**Hon. C. William Doody (Deputy Leader of the Government):** Honourable senators, I have a delayed answer in response to a question asked in the Senate on December 13 last by the Honourable Senator Haidasz respecting Pharmaceutical Industry—Request for Tabling of Applicant's Legal Undertakings.

*(The answer follows:)*

Mérieux of Fance has controlling interest in Connaught BioSciences. The commitments they have to the Government of Canada are attached:

#### SUMMARY OF KEY UNDERTAKINGS BY INSTITUT MÉRIEUX S.A

The undertakings of Institut Mérieux S.A. with respect to the proposed takeover of Connaught BioSciences are divided between those binding Mérieux for a period of 10 years and those binding Mérieux indefinitely.

##### I. Undertakings binding Mérieux for 10 years

###### R&D

Fifteen per cent of the consolidated sales revenues of the combined enterprise will be spent on R&D activities. These expenditure will be exclusive of government contributions.

Connaught's share of the total R&D budget of the combined enterprise will not be less than its existing 36 per cent share.

Connaught will spend an aggregate of not less than \$160 million (in 1988 Canadian dollars) on R&D in Canada during the five calendar years following the implementation of the investment; the pace of expenditures within the 5 years is subject to approval by the U.S. Food and Drug Administration (FDA) of Mérieux's pending applications for certain vaccines.

Connaught's annual spending on R&D in Canada will be at least 65 per cent of its total spent on R&D in North America.

Mérieux undertakes to allocate at least an average of 25 per cent of total R&D spending in Canada during the first five calendar years following implementation of the investment, on basic research and will ensure that an aggregate of at least \$39 million (in 1988 Canadian dollars) will be spent on basic research in that period; subject to FDA approval of the vaccines.

Mérieux will consult on an annual basis with selected federal government departments and agencies and with interested provincial governments to seek their advice and input in the development of biotechnology at Connaught and will report annually to Investment Canada on these consultations. As an integral part of these consultations, Mérieux will submit within six months a medium-term operating plan and longer-term strategic plan for government advice and input.

Connaught will commit to a higher level of contracted out R&D projects and joint research projects with Canadian academic, institutional and industrial centres than is currently contracted out by Connaught (refer also to agreement dated October 24, 1989 with the University of Toronto).

##### Capital Expenditures

Mérieux will build a Biotechnology Centre at Connaught's Willowdale site over a three-phase process to become fully operational within a period of five to seven years following the implementation of the investment. Capital expenditures to complete the centre are estimated to be C\$30 to C\$40 million and will be made by Connaught. The centre will employ approximately 125 people when completed and create a total of approximately 30 to 50 new, permanent positions. Connaught will enter into a meaningful cooperation agreement with the University of Toronto with respect to the operations of the centre, as provided in Mérieux's agreement dated 24 October, 1989 with the U. of T.

Mérieux will assess the feasibility of establishing in Canada a blood fractionation plant based on Institut Mérieux's state-of-the-art technology.

##### II. Undertakings binding Mérieux indefinitely

###### Canadian Control/Participation and Identity

A majority of the 10 members of Connaught's Board of Directors must be "resident Canadians" and five of the resident Canadian directors will be independent of Mérieux; the other five, including the Chairman, with an additional casting vote, will be nominated by Mérieux. The Canadian directors will be chosen in consultation with the governments of Canada and Ontario.

Any fundamental decisions affecting the essential Canadian identity of Connaught would require two-thirds of the votes of the Board of Directors.

Not later than six months after the implementation of the investment, Mérieux will offer to Canadian investors those voting shares of Connaught BioSciences Inc. then owned by Institut Mérieux and its affiliates which exceed 50 per cent of the voting shares then outstanding on a fully diluted basis at a price equal to their cost of such shares and that such offer for sale will remain outstanding for a period of at least one year.

Mérieux will offer for sale up to 49 per cent of its voting shares, in a manner reasonably expected to provide the opportunity for their acquisition by Canadian investors without affecting the majority ownership of Institut Mérieux International S.A.

Mérieux will appoint "resident Canadians" to the board of directors of Institut Mérieux to ensure Canadian representation on the board of directors of Institut Mérieux that is proportionate to the amount of Canadian participation in the voting equity of Institut Mérieux. In anticipation of such participation Institut