An indication of the profitability of the pharmaceutical industry relative to other classifications in the manufacturing industry is shown by Table 4 which summarizes the seven highest rates of return (profit before taxes) on resources employed for manufacturing companies in 1963. These rates are taken from the fourth edition of "Ten Significant Ratios for Canadian Manufacturers" as prepared from Taxation Statistics by the Canadian Manufacturers' Association. It will be observed that the pharmaceutical industry is listed as seventh out of a total of 63 industrial classifications. Out of 178 companies included in pharmaceutical preparations, 71 of them had an above average return on total assets. The average rate for these 71 companies was 26.7 per cent. The average rate for the remaining 107 companies was 8.6 per cent which is only slightly less than the average rate of 9.2 per cent for companies in all classifications.

Individual members of the Pharmaceutical Manufacturers' Association of Canada reported to the Committee a variety of calculations for rate of return on investment. Because of this, it is difficult to generalize but they appear to be comparable to the average rates reported by the association in its brief.

It should be remembered that the rates shown for pharmaceuticals in Tables 2, 3 and 4 relate to the total operations of the companies involved. Evidence presented by the PMAC indicates that the corresponding rates for operations relating only to packaged human pharmaceuticals would be higher.

From the above analysis of the return on investment, it is concluded that the rate of return for drug manufacturers is significantly higher than for all manufacturing. For packaged human pharmaceuticals only, the rate appears to be at least twice as high as the average for all manufacturing. Moreover, during the period of 1953 to 1964, the pharmaceutical manufacturing industry effectively resisted or was immune to the influences which caused a decline in rate of return on investment for manufacturing in general.

Risk

Several of the manufacturers' briefs contained statements attempting to justify the rates of profit experienced by the drug manufacturers in terms of the risks run by those companies. The following are typical of these statements:

> "Profits in the pharmaceutical industry are consistent with the risks involved. This is a research-based industry in which progress results from vigorous and sustained competition. Companies must maintain substantial expenditures on research, both in Canada and internationally, without any guarantee that specific projects will yield results even after years of investigation and development. On this depends the availability of new and better drugs" (PMAC brief, pages 3.4 and 3.5).

> "Our rate of profit reflects the cost of doing business in a limited market such as Canada, the kind of industry we are in, which involves high risks of many kinds including product obsolescence, and our relatively heavy long-term commitment to research" (brief, Charles E. Frosst & Co., page 14).

On the question of product obsolescence, the Province of Alberta (page 62 of brief) had this to say:

> "Drug firms complain of the high rate of obsolescence of drugs, and argue that such risks justify high profit rates. The argument is not irrelevant under present circumstances, but the risks of obsolescence are not inherent but result from the way in which drugs are developed and promoted. High risks do not justify high profits in this instance because the risks and profits are both symptoms of the same disease: sales promotion rivalry substituting for price competition."