

as Hoffmann-LaRoche's chlordiazepoxide ('LIBRIUM') and diazepam ('VALIUM') and Smith Kline and French's trifluoperazine ('STELAZINE') for which compulsory licences exist or are likely to be granted, and which therefore are or will be subject to "open price competition."

Even if the prices of this \$40 million could be cut by 50 per cent, the saving would be only \$20 million. This is quite different from the \$100 million prospect which Professor Steele holds out.

You will doubtless have noticed that Professor Steele shows by his extensive quotations that he studied the Hoffmann-La Roche submission very carefully. He must therefore have seen that Roche explained, in paragraph 30 (c) (Minutes of Proceedings and Evidence No. 11, page 765) and elsewhere, why the Hall Report recommendation to licence imports could not have any further marked influence on the price of drugs.

The essence of Roche's explanation was that the cost of manufacturing the active ingredient is a very small part of the total costs, most of which must in any case be incurred in Canada, and that the compensation for the grant of a licence is at present a declared "pittance." It is true that Professor Steele's Recommendation 1, on page 123, says "subject to reasonable royalties." But the general presumption of his submission is that he does not think that reasonable royalties" should be very different from the present awards.

There are, in fact, no factual grounds for belief that enabling licensees to import would increase the number of their applications markedly. That should be clear to the Committee from the evidence of the group that calls itself The Canadian Drug Manufacturers and other firms such as Micro Chemicals, which actually have made such applications. Though they naturally advocated many things which they hope would advantage them, they notably did not press for licences to import.

The Roche evidence shows that licensees do not in fact willingly cut the price by anything like 50 per cent when they get a compulsory licence. They want as much as possible of a margin created by the patentee's heavy costs built into the price and they freely admit that they are not interested in licences for the many smaller selling drugs. Even so, their own evidence before the Committee shows that they find it difficult to survive, let alone to expand; hence their various pleadings for Government assistance. These basic facts would be unaffected by whether imports were licensed or not.

Professor Steele's Chapter IV may very well indicate that he realizes all this. It is by no means clear that he hopes or expects that the existing originators would continue to do business in Canada notwithstanding a 50 per cent reduction of their turnover. But he is silent as to why they should be prepared to create the market for new drugs by a heavy investment in providing information to doctors, in face of the certainty that it will be immediately invaded by compulsory licensees.

Professor Steele himself stresses how difficult it is for the small Canadian firms to enter even an established market. It should follow that it would