

A comparison of the return on investment in pharmaceutical manufacturing with that in all manufacturing for the years 1953-1960 was made by the Restrictive Trade Practices Commission. The Commission's calculations of the rates of return on capital invested are reproduced in Table 2 as well as the corresponding rates for the years 1961 to 1964.

In general, the same characteristics and trends shown in Table 1 are apparent in Table 2. The main difference is that Table 2 makes the pharmaceutical manufacturing industry appear even more profitable relative to all manufacturing. The average rate of return on investment over the twelve-year period was 20.0 per cent for all drug manufacturers (profit and loss companies) as compared to 10.30 per cent for all manufacturing, or approximately 96 per cent higher. During this period, the return on investment to the pharmaceutical industry tended to increase (from 16.62 per cent in 1953 to 23.22 per cent in 1964) although there was a decline in 1961 and 1962. However, there was a significant recovery in 1963 and, in 1964, the highest rate of return of the twelve-year period was experienced. At the same time the return on investment for all manufacturing showed a substantial decline, going from 15.03 per cent in 1953 to 9.20 per cent in 1964. Manufacturing in general showed a levelling off in 1957 and from 1957 to 1964 the average rate of return on investment was 8.97 per cent. During the same period, it was 20.65 per cent for pharmaceuticals.

A rather similar situation is shown by the rates for profit companies only. Over the twelve-year period, the average rate of return of the pharmaceutical companies was approximately 79 per cent higher than for all manufacturing (23.49 per cent as compared to 13.15 per cent). Again, while the rate of return of all manufacturing declined by 31.6 per cent, that of the pharmaceutical manufacturing firms increased by 43.4 per cent over the twelve years.

The Pharmaceutical Manufacturers' Association of Canada, in its submission to the Committee, suggested a different method for calculating return on investment. It suggested that earnings be related to the resources (assets) employed. It reported 15.6 per cent as the rate of return (before taxes) on resources employed in the total operations of the 41 companies included in its 1964 survey (brief, page 3.5). From figures appearing in its brief, the corresponding rate for packaged human pharmaceuticals only was calculated at 21.1 per cent.

The rates of return on resources employed were calculated for the entire pharmaceutical industry and for all manufacturing from material shown in Taxation Statistics, published by the Department of National Revenue. These rates appear in Table 3. It will be noted that the rate of 15.6 per cent quoted above is comparable to the average rate for profit and loss companies in the pharmaceutical industry as shown in Table 3. The above rate for human pharmaceuticals only (21.1 per cent) is much higher, however.

It will be noted that Table 3 supports the observations made above in the discussion relating to Tables 1 and 2. For all pharmaceutical manufacturing companies, the average rate of return on resources employed is 14.50 per cent for the period 1953-1964. This is 65.1 per cent higher than the average rate of 8.78 per cent, which was experienced by all manufacturing companies in the same period. Also, while the rate of return of all manufacturing declined by 31.3 per cent, that of the pharmaceutical manufacturing companies increased by 11.7 per cent over the twelve years.

With respect to profit companies only, it is noted that an average return of 17.14 per cent was realized by pharmaceutical manufacturers, whereas the average rate for all manufacturing was 10.92 per cent. The average rate for pharmaceuticals is 56.7 per cent higher than the rate for all manufacturing.