

Gatineau
October 20, 2010

Marc-André Gagnon
School of Public Policy and Administration
Carleton University
1125 Colonel By Drive
Ottawa, ON
K1S 5B6

To the Standing Committee on Industry, Science and Technology (INDU),

I am a professor of public policy at Carleton University specializing in both pharmaceutical and innovation policy. I thought it would be useful to send the INDU Committee some relevant information about the current debate on Canada's policy on drug access (Bill C-393).

One of the principal arguments against Bill C-393 is that its reforms of Canada's policy on drug access would reduce the profits of the brand-name pharmaceutical industry and therefore result in job losses in that sector. However, this argument is in fact baseless, for various reasons.

- The profits of the brand-name pharmaceutical industry have been rising for several years. In 2009, profit rates for the major pharmaceutical companies listed in the Fortune 500 averaged 26.4%, a record high, while the average profit rate for all Fortune 500 firms was 4%. (See Appendix 1.)
- Despite record profits, 2009 was one of the poorest in terms of therapeutic innovation. According to the independent scientific journal *Prescrire* [Prescribe], in 2009, 104 new drugs came onto the market in France. It was deemed that 3 made a minor therapeutic contribution; 95 brought nothing new to the market, and 19 were criticized for being harmful. For the first time, discussion in *Prescrire* was about pharmaceutical regress rather than progress. (See *Prescrire*. "L'année 2009 du médicament : Trop peu de progrès pour soigner et trop de régressions," [Drugs in 2009: too little therapeutic progress and too much regress] *Prescrire* 30, no. 316 (February 2010), pp. 136–142.)

- If there is a crisis in new drug production, it is not because the major brand-name pharmaceutical companies are not earning enough profit. On the contrary, these companies have embraced a much more profitable business model based not on therapeutic innovation, but on large-scale marketing of new drugs that offer few therapeutic benefits (me-too drugs).
- For example, Merck's profit rate in 2009 was a record 47%. In its 2010 restructuring, it announced that it was closing its most innovative research labs (Merck-Frosst in Montreal and Organon in the Netherlands, for example) because they were less profitable than the ones that focus on large-scale marketing of me-too drugs (less costly to produce, less risky and therefore more profitable). It is important to understand that, from a business perspective, closing the most innovative research labs is not a result of industry profits being too low, but rather of them being too high (projects that could generate a 20% profit are dropped for those that could produce 30%).
- Research-based pharmaceutical (Rx&D) companies in Canada invest three times more in the sales and marketing of their products than in R&D. Only 16% of their payroll is devoted to R&D; 66% goes to sales, marketing and administration. (See Appendix 2.)
- The costs of industrial policies that attempt to attract patented pharmaceutical investment to Canada are exorbitant compared with the economic spin-off generated by the industry. The industry's total R&D expenditures amount to \$1.31 billion, 59% of which is tax subsidies. Our industrial policies for pharmaceutical industry pricing, set by the Patented Medicine Prices Review Board (PMPRB), artificially inflate our drug prices. This pricing policy costs us \$1.53 billion more than if we paid the average price in OECD countries. Canadians are therefore paying an extra \$1.53 billion to sustain an industry that generates \$537 million in R&D spending. This is utter foolishness in economic terms. (For a detailed calculation of the costs of innovation policies relative to the economic spin-off, see section 4.2 of my report, *The Economic Case for Universal Pharmacare*, which is attached.)

I hope that the INDU Committee finds this information useful.

Yours sincerely,



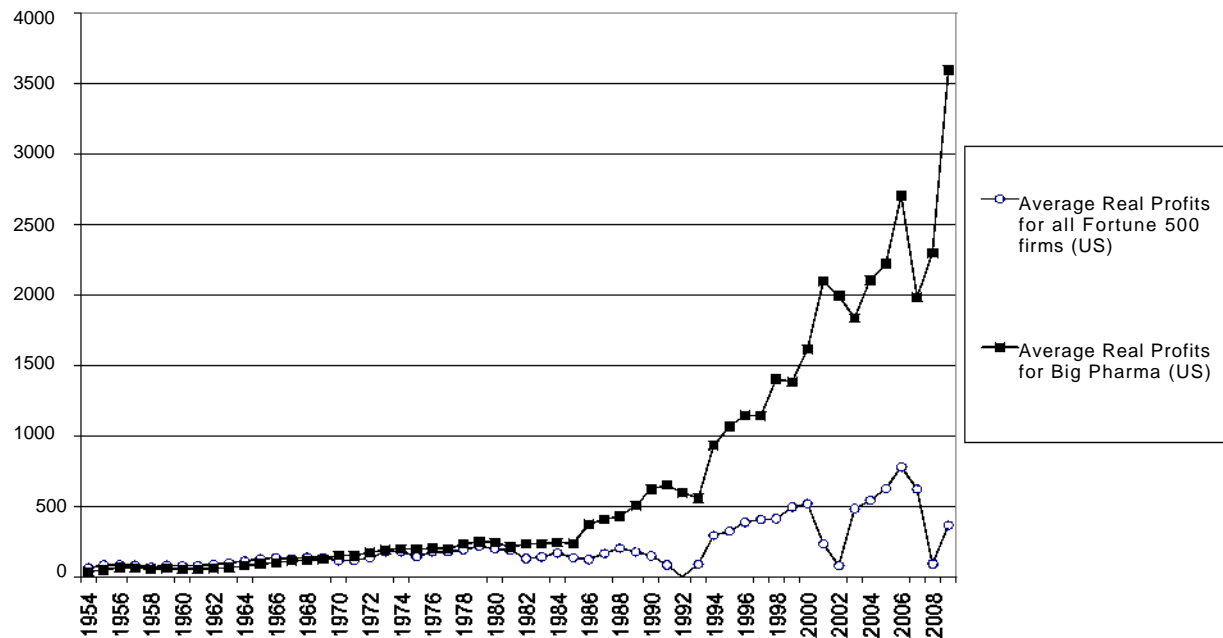
Marc-André Gagnon, PhD
Professor, School of Public Policy and Administration, Carleton University

Appendix 1

Real profits (constant dollars) of pharmaceutical companies listed in the Fortune 500 (the 500 largest American companies) compared with those of other Fortune 500 companies

Differential Accumulation for US dominant pharmaceutical as compared to all Fortune 500 firms 1954-2009

(Updated September 23, 2010)



Sources: All data come from the companies' annual reports.

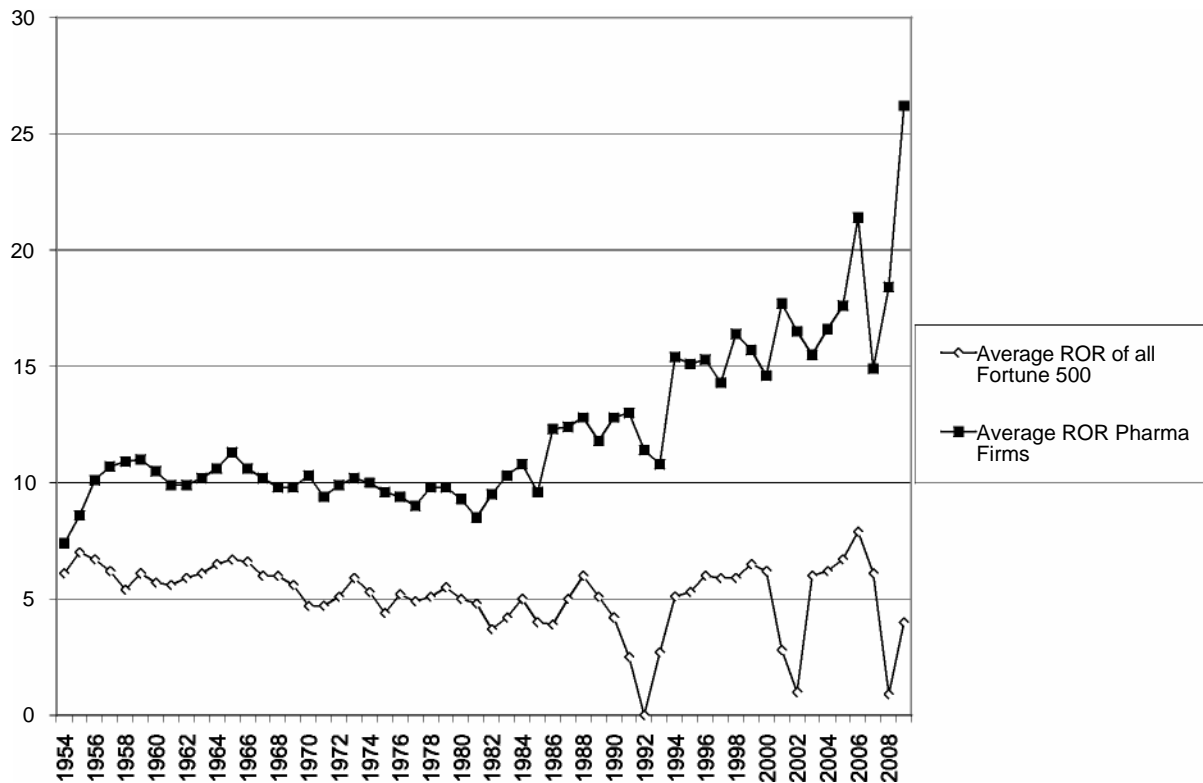
For 2009, the major pharmaceutical companies listed in the Fortune 500 are the American firms Johnson & Johnson, Pfizer, Abbott Laboratories, Merck, Eli Lilly, Bristol Myers Squibb, Amgen and Gilead Sciences.

Appendix 1

Profit rates of pharmaceutical companies listed in the Fortune 500 (the 500 largest American companies) compared with those of other Fortune 500 companies

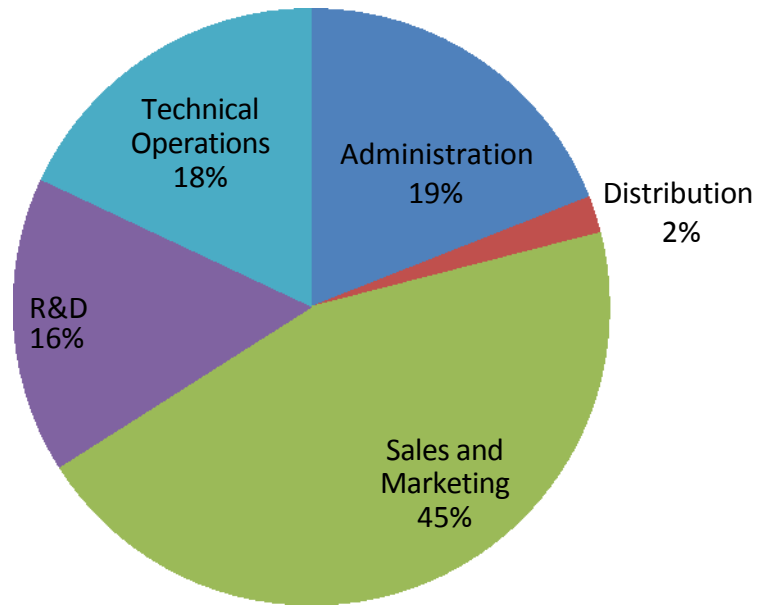
Differential Returns on Revenues (ROR) Between Big Pharma and Fortune 500, 1954-2009

Source: Fortune Magazine (Updated September 23, 2010)



Appendix 2

Payroll distribution by job classification in Rx&D companies in 2003



Source: PriceWaterhouseCoopers 2005, Rx&D