not be surprised to find large average profits in risky enterprises or to take such profits as evidence of abuse of market power, and (2) if abuses are found, one must take care to eliminate only excessive, and not necessary returns on investment, if one does not wish to strike at the well springs of risk taking and growth.

Senator NELSON. I don't know whether this is an abuse or not, but I will give you the facts and ask for your comment.

Rhone-Poulenc, a French firm, discovered chlorpromazine. They licensed a company in the United States to produce it, and they licensed a company in Canada to produce it, each of them with the exclusive market in their respective countries. So neither the company in the United States nor the company in Canada spent any money on research. It was just a question of each one of them having an exclusive market, both in the same continent with adjoining borders.

The price charged by the U.S. licensee for 25 milligram tablets to the Defense Supply Agency was $32.62 a thousand. The price of the Canadian Licensee to Canada's Department of Veterans Affairs was $2.60 a thousand.[1] Can you explain to me the economics of that?

Dr. COOTNER. I obviously can't, sir. I haven't done any study of the drug industry. These figures, of course, are very much like the figures you presented at the beginning of the statement, and I trust that the PMA will deal with this subsequently, but I have no expertise in the drug industry and I couldn't comment on it.

Senator NELSON. I didn't think I was asking a question that required expertise. This is general economic theory. Under what economic theory would you justify vast price discrepancies between two licensees of the same product, neither of whom did the research, both on the same continent, with adjoining borders. Why is the Canadian Government paying $2.60 a thousand for tablets, and the American Government $32.60 a thousand. There must be some economic theory under which each of these firms can succeed in charging their respective prices and both still make a profit.

Dr. COOTNER. Well, If I had to comment I would have to speculate but, of course, there is always the possibility that there were differences in costs of the two firms or differences in quality. If there were no differences in costs or quality you would have to find something else to explain it if you could. But the point is I cannot comment on it without knowing more about the difference in costs or quality. If they are identical products then I think it would require some explanation.

Senator NELSON. Well, they are licensees for the same product, and used all the background research and information that Rhone-Poulenc had. Could the differential be explained by the fact that each one of them has exclusive control of the market. There is no competition in either country, and yet one charges almost 15 times as high a price as the other. The industry keeps saying, among other things, that, "We need money for research." Well, they didn't do the research on this product, and I assume both the Canadian and the American companies are making a profit.

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[1] See chart, p. 1746, infra.