

Mr. CONRAD. The assertions we make are that we have analyzed the statements of the executives in the drug industry and we have analyzed the drug industry ourselves in terms of the types of risks that are inherent and operating in the industry. We are not claiming and we did not come in to say that we are proving through examples of past evidence that these risks have taken place. We are saying that the combination of these risks in prospect and these risks that we have enumerated, these five risks are present, I did not think anyone who has studied the drug industry in depth at all would say that they were not there in the drug industry. Those are reasonable examples of risks that drug firms face.

The second point is that we are trying to link that group of risks with a high concentration of profitability in the drug firms. If there is a high concentration of profitability in drug firms among a few product lines, then anyone of those risks could very significantly disrupt that company's earnings for any length of time from 1 year up to as long as it takes to introduce a new product into a line to replace the revenues and profits represented by the product that was lost.

We in no way and nowhere in the statement, I think, can be interpreted as coming in here to prove these risks, on the basis of their past existence. We have not attempted to do that, we have not done it in our study to date. We further do not think it necessarily germane.

Senator NELSON. Well, OK. I guess we have covered that.

Dr. MARKHAM. Shall I proceed, sir?

Senator NELSON. Yes.

Dr. MARKHAM. These risks, referring again to five or possibly others, are not of the cyclical type where demand for a product dips only to recover again when conditions affecting its position in the economy improve. Most manufacturers whose profits are reduced during a recession can in general look forward to a restoration of profitability when the economy subsequently recovers. However, the pharmaceutical firm generally must find a replacement for its lost revenue and profits in the form of a successful new product. To the extent that the research, development, approval, and introduction of a new major product requires a prolonged period of years, the firm may suffer long periods of significantly reduced profits.

In the study we are making at Arthur D. Little, Inc., we have sought through requests to a representative sample of major pharmaceutical firms to obtain the percent of total net profits and total gross profits accounted for by each of their five most important product lines in the 3 years 1961, 1964, and 1966. To facilitate this transfer of information the returns are being coded in such a way that neither of us can identify the responding companies.

We are prepared to discuss with the committee our interpretation of what we believe the returns received to date show in terms of the magnitude of the risks encountered by the firms who have submitted the returns.

I would like to just make an addition to the written statement and say, as you can pretty well appreciate, that firms who do not keep their books, or at least do not keep profits, gross profits, or net profits, in terms of specific products or product lines, are very reluctant to step out to make meaningful statements of just the extent to which