

which holds the patent and pays no product royalties, and which reportedly has a lower cost production process, the total costs of production might perhaps be as low as \$1.50. If Pfizer pays the same royalty as Bristol for the use of Lederle's process, its production costs plus royalties would be about \$2.75. For Upjohn, Bristol and Pfizer, the ratio of production cost plus royalties to the price to the druggist might be about 30 per cent, 15 per cent and 9 per cent.

The gap between estimated production cost and price for chloramphenicol is predictably handsome. One bulk powder transaction did take place, between Parke, Davis and an Italian firm, Farmitalia, at \$30.00 per kilogram. Using this price for the raw material, and Upjohn's actual costs for capsuling, finishing, and packaging, a cost of \$1.52 for a bottle of one hundred 250-milligram capsules is obtained. This is 5.0 per cent of the price to the druggist of \$30.60, and 3.0 per cent of the retail price to the consumer.⁶⁹

The bids received by the Military Supply Agency reflected the status of market competition. For penicillin, competitive bidding was the rule, the price for 250,000-unit potassium penicillin G tablets falling from \$1.29 per hundred in April 1957 to \$0.65 in June 1960. As in the case of prednisone, small firms selling penicillin regularly charge much lower prices than large ones. For this particular product, the smallest firm (sales of less than \$100,000) had the second lowest price (\$3.30); the second smallest firm (sales of less than \$1,000,000) had the lowest price; and three of the largest firms (sales of \$150 to \$250 million) had the highest price (\$12.00).⁷⁰ For broad spectrum antibiotics, the picture is entirely different, as can be seen from Table II.

For this entire period the price to the druggist on all these drugs was \$30.60, and the price to the consumer, \$51.00. Lederle and Parke, Davis began the period of rigid prices to the trade by quoting a 50 per cent discount to the Armed Services Medical Procurement Agency (the predecessor to the Military Medical Supply Agency); Pfizer allowed about a 51 per cent discount off the druggist's price. Apparently the three firms recognized the high degree of substitutability among their drugs, for prices fell for each seller with

⁶⁹ Harry Loynd, president of Parke, Davis, objected at length that the Farmitalia price was much lower than American production costs. In order properly to appraise the reliability of Loynd's assertions, it is advisable to read the whole of his quite remarkable testimony; nevertheless, a consideration of the import agreement is instructive. Farmitalia agreed to supply Parke, Davis with up to 30,000 kilograms of chloramphenicol during 1960 at \$30 per kilogram. Through July 11th, however, only 6000 kilograms had been imported. If this price were such a bargain, why did Parke, Davis not take greater advantage of it? The suspicion is that Parke, Davis might be able to make it for less in Detroit. However, even if the price were twice as high, it would only increase the cost per 100-capsule bottle to \$2.31, or 7.5 per cent of the sales price, *Hearings*, op. cit., Part 24, pp. 13971-8.

⁷⁰ *Report*, op. cit., p. 84.