

February 14, 1972

CONFIDENTIAL

Mr. J. E. Brent
Chairman of the Board
IBM Canada Ltd.
1150 Eglinton Ave. E.
Don Mills, Ontario

Dear Mr. Brent:

After thinking about the special meeting of the Executive Committee on Monday, February 2, it seems that I must try to state more clearly why I think that the sale of Connaught to the CDC would be a grave mistake which would probably be disastrous for Connaught and disappointing to all others concerned.

Connaught is principally experienced and skilled in the development and production of substances related to immunology and immunization. The markets for these substances are largely controlled by governments. Purchases are therefore determined mostly by immediate political pressures. Thus the possibilities for expanding sales abroad by conventional marketing methods are very limited.

Immunologic products have always been precarious commodities for private business in all countries. American companies have done better than others in recent years because they have enjoyed reasonably generous developmental contracts from the U.S. government, largely for trial or use by the armed forces. Connaught has had nothing comparable from the Canadian government since 1955. The grants which we have received for various purposes have not, and do not, cover overhead. Therefore Connaught's business in biologics will probably continue to be precarious.

In short, the thought that sales of Connaught's present range of products could be increased by more aggressive marketing is probably fallacious. The domestic market is saturated, and the foreign market sporadic and unreliable. The increased costs of a marketing organization, plus taxes, might well ruin Connaught, and destroy its present value as a non-commercial agency, responsive to the needs of public health programs in this country.

There are two directions in which the skills and facilities of Connaught can be developed with prospects of modest financial success. The first is for the immunologic treatment of cancer by tuberculins and attenuated tubercle bacilli (BCG). This is the most important recent development in the treatment of some forms of cancer. Why then, you may ask, must the financial return be so modest?

There are three reasons:

- (1) Every civilized country can make these products.
- (2) No patent protection is possible.
- (3) Governments will control all distribution at minimum prices.

Only as a non-profit institution of public service could Connaught support itself financially in this kind of game. We know the rules of this kind of game and could play it creditably in every sense.

The second direction in which Connaught could expand is in production of immunologic and microbial diagnostic materials. By this, I mean special blood typing sera, serologic tests for hepatitis, and cancer, special media and gadgets for growing bacteria and viruses, and testing their susceptibility to a variety of antibiotics and chemotherapeutic agents. This is a very diversified, sophisticated, and rapidly changing field. We are not innovators in it but we have four assets for it:

- (1) Some old buildings which can be used for space, since government controlling agencies haven't got around yet to making the rules too hard to live with.
- (2) We have many people with basic knowledge and experience in microbiology and immunology. We would require relatively few new scientists with more recent and specialized technical knowledge.
- (3) We have a reputation for scientific integrity.
- (4) We have tax advantages to keep costs low in a very competitive field. The competition is all from some half dozen aggressive firms in the U.S.A. We would need all the advantages which we can retain to secure and hold a share in this turbulent market.

I doubt that the officers of CDC are thinking in the foregoing terms. From what they said I believe that they are thinking vaguely in the direction of a major pharmaceutical industry and that they believe that the facilities and staff of Connaught would be a good nucleus. In this they are mistaken. Connaught has scientific strength in immunology, bacteriology and virology.

A pharmaceutical industry to-day needs above all, many organic chemists, physical chemists, pharmacists, and pharmacologists. Connaught doesn't have them, nor the buildings and equipment to house and support them. We don't even have a tableting machine, or a capsuling machine. In other words buildings and staff would have to be built up from scratch. It doesn't make sense to attempt that on any of the expensive ground now owned by the U. of T. and probably not in the Toronto area.

As a former pharmacologist I would love to help to build an important international pharmaceutical business for Canada, but Connaught is not a proper base for such a project, and I would be very sad to see Connaught ruined by an attempt to use it that way. So would many other Canadians.

It is easy to see why Ottawa should be anxious at this time to make some gesture towards establishing a drug industry in Canada. Unwise legislation in Ottawa has resulted, in barely two years, in destroying almost completely, the Canadian owned drug manufacturing industry. To the best of my knowledge there is now only one financially successful Canadian owned drug manufacturer. That one is not likely to grow into an exporting industry because it is thriving by importing drugs from the countries where they are available most cheaply. If the almost complete takeover of the Canadian drug industry by U.S. firms becomes known to the public, the reaction could be unpleasant for the government.

I can't help wondering if the interest in buying Connaught at this time is not stimulated more by a desire for favourable political publicity for both the government and the CDC, than by sound business considerations. If so, perhaps the Governors of the University of Toronto may not be eager to cooperate.

Yours very truly,

J. K. W. Ferguson, M.D.
Director

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