

## THE TRAFFIC IN TECHNOLOGY

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### The Package Deal

Already this year two major 'technology' scandals have shocked the British public. First came the news that a major part of Britain's North Sea oil wealth had been taken over on the cheap by American companies. Soon afterwards came the announcement that the secretive Swiss-based drug company Hoffman La Roche was charging the National Health Service £407 and £1014 for the active ingredients of Librium and Valium which could be bought from Italian manufacturers at £9 and £20 respectively.

What do these two scandals have in common? In both cases the companies concerned had something which Britain needed—advanced oil exploration technology in one case and vitally needed medicines in the other.

But the American companies were not interested in coming over only to find the oil and then go home again. Instead they sold Britain a package deal which involved not only finding the oil but also helping to exploit it and becoming 'sitting tenants' over a large area of the North Sea oil fields.

Similarly Hoffman La Roche were not selling just one piece of pharmaceutical technology. For each bottle of Librium or Valium pills is in itself a complex package, including the Hoffman La Roche tranquiliser production know-how, the trade marks 'Librium and Valium', the patents for their key chemical ingredients, and the company's extensive sales network.

The key fact in all this is that neither Hoffman La Roche nor the American oil companies were interested in selling the elements of their technology separately. They are in the business of designing, producing and selling package deals.

'Commercial lock-ins' are standard practice between two branches of the same multinational company, and in this case 'lock-ins' do not even require a contract—just a memo or a telephone call from head office. This was exactly the game played by Hoffman La Roche and its British subsidiary Roche (U.K.). Roche (U.K.) was commercially locked-in to buying several ingredients of the Librium and Valium packages from Hoffman La Roche in Switzerland.

*"The technology which the rich countries have developed over the last two hundred years is what made them rich—and the great advantage of the developing countries is that this technology is freely available to them now without having to go through two hundred years of development to get it".*

For years this argument has prevailed. For years it has been a source of hope in poor countries and complacency in rich countries.

But the prophecy is not coming true? And now it is becoming clear that technology is not primarily being used to make the poor less poor but to make the rich more rich. The fundamental reason for this is that much of modern technology is not "freely available"—it is the property of the rich nations and multinational companies who are now engaged in selling it to the poor world at prices which are often scandalous and on conditions which are often damaging to a poor country's development efforts—*New Internationalist*.

So having forced your customer into buying more than he wants and locking him into buying it all from you, you can also make him pay much more than he bargained for.

### Multi Channel Payments

The next potential abuse is perhaps the most damning. The technique is to establish as many separate channels of payment for your technological package as you possibly can. You invoice your customer separately for royalty payments on patented products, for sales of the ingredients which make-up the product, for a share of central office overheads and research costs, in addition to your profit and dividend remittances from your foreign subsidiary. Then, if the government of the country you are selling to legislates a maximum royalty rate or an upper limit of profits going out of the country, you simply increase the price of the raw materials or raise your charges for 'research costs'. Obviously it is only the total remittance you are interested in, not how much is paid through each individual channel.

This system, commonly called 'transfer accounting', is now standard practice with many multinational companies including Hoffman La Roche. Whilst Roche (U.K.) Ltd., had declared profits of £3 million on the sales of Librium and Valium between 1966 and 1972, 'transfer accounting' had been used to sluice out from Britain £21 million through inflated ingredient prices and an unusually high charge for overheads and research costs. So not only had Hoffman La Roche stung the British taxpayer for £21 million by selling Librium and Valium to the National Health Service at inflated prices, but they had also avoided paying British taxes on a large slice of the profits they made in doing so.

It is difficult enough for a highly developed and financially sophisticated country to 'police' all these channels of payment and impose limits on them—witness American and European headaches with exchange control. But a poor country which lacks financial experience and trained commercial manpower cannot always police every channel adequately. And policing only some of

the channels of payment is of limited usefulness. It is like a man trying to plug eleven holes in a dyke with only ten fingers.

### Colombia Investigates

In 1968, the Colombian government spotted a strange anomaly in the behaviour of American investors. Why did American companies operating in Colombia report such low profits and at the same time show themselves so desperately keen to expand their Colombian operations? The government invited a young Greek economist, Constantine Vaitsos, to investigate.

Vaitsos came to Bogota, capital city of Colombia, and was given access to the customs office files. There one of his team worked for 11 months, tabulating data on 1,500 imported intermediate products, recording the name and quality of the products, the names of the importer and exporter, the volume of the imports, and most important of all—the price of the imports. The prices paid by Colombian subsidiaries for imported ingredients in technology packages were compared to the international prices prevailing for the same products as quoted in European and American markets. The differences were staggering. In the pharmaceutical sector, the average overpricing of intermediate ingredients imported by foreign-owned subsidiaries was 155%. Vaitsos worked out that, together with adjustments for royalties and consultancy fees, this meant that the profit rate earned by foreign pharmaceutical firms investing in Colombia was not the 6.1% average which they declared to the Colombian authorities—but actually 79.1%. The trick employed was exactly the same trick that Hoffman La Roche played on Britain with Librium and Valium—transfer pricing! It is interesting to note that the two worst cases of overpricing uncovered by Vaitsos and his team concerned the products "Diazepam" and "Chlordiazepoxide". In Britain these two pharmaceutical products are marketed by Roche (U.K.) and are none other than Librium and Valium. In Colombia, the over-pricing on "Diazepam" was 6,478% and on "Chlordiazepoxide" a mere 6,155%. Perhaps we in Britain should count ourselves lucky. (*New Internationalist, July 1973*).