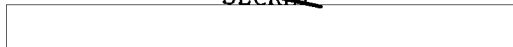


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Central Intelligence Agency

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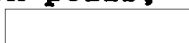
DIRECTORATE OF INTELLIGENCE

23 September 1988

Argentina's Policies Toward the Pharmaceuticals Issue 

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Summary



Argentina's lack of patent protection for medicines--which has brought it into conflict with the US--is deeply rooted and broadly supported by consumers, doctors, domestic manufacturers, and political leaders alike. This longstanding practice helps keep manufacturing costs down and contributes to low retail prices for medicines. Policymakers from President Alfonsin on down will probably be unfazed by the prospect of eventual US retaliatory sanctions, and we foresee few prospects for liberalizing pharmaceutical policies during the remaining 15 months of Alfonsin's administration. Peronist presidential candidate Carlos Menem, who currently enjoys a commanding lead in the opinion polls, would almost certainly continue current policy. 

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The Roots of Argentine Beliefs

Most Argentines believe that the pharmaceutical industry, because of its importance to health, is unique and should not be

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allowed to profit from the sale of medications. This viewpoint may have been best encapsulated by an Argentine official who--in response to US trade negotiators' assertions that multinational drug companies needed an adequate return on their investment--argued that pharmaceuticals were "not like fried potatoes." As a result, Argentine governments from the populist Peronists through the more market-oriented military regimes of the 1970s to that of President Alfonsin have steadfastly maintained controls on pharmaceuticals, making prices for drugs in Argentina among the lowest in the world.

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The Argentines also view the pharmaceutical industry from a nationalistic standpoint, arguing that as an "infant industry," Argentine pharmaceuticals need protection and time to become established, and that patent controls have usually been instituted in countries only after an industry has reached a more advanced stage of development. They maintain that it is unjust to oblige developing countries--with their limited resources--to bear the costs of research and development. In addition, Argentines, who have a deep-seated mistrust of businessmen in general, oppose patent systems that they believe enable companies--especially multinationals--to exert monopoly control. Finally, Buenos Aires probably believes that strongly protecting domestic pharmaceutical companies helps assure their acquiescence in government price controls. Without protection against research and development costs, the controls would probably eliminate whatever profit margins now exist.

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As a result, Buenos Aires instinctively favors domestic firms.

- Argentine law recognizes patents on procedures for manufacturing the active ingredient in a medication, but not on the final product itself. This allows domestic firms to "legally" pirate medicines by making slight changes in the manufacturing process.
- Buenos Aires allows domestic--but not foreign--firms to file for registration of drug formulas prior to clinical testing, which provides domestic firms with as much as 16-18 months in lead time,
- Argentine pharmaceutical firms sometimes receive approval to charge higher prices than American firms, in part because of outright bribery.

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As a result of such practices, several US pharmaceutical companies have shut down manufacturing operations in Argentina during the last five years, and domestic firms' share of the Argentine pharmaceutical market has risen from 20 percent in 1982 to 55 percent at the present time.

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The Policymakers: Standing Firm

We believe all key Argentine policymakers share the long-ingrained national attitudes on the pharmaceuticals issue. Throughout the Alfonsin administration, the Radical Party has doggedly clung to a populist, nationalistic orientation on this issue--even as it has become more favorably disposed toward freer trade and foreign investment in other sectors of the economy. President Alfonsin, the ultimate arbiter on policy, appears to be highly supportive of the current policy approach on patent protection. [redacted]

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Negotiations with the US on pharmaceuticals are handled within the Economy Ministry, headed by Juan Sourrouille, who is the second most influential economic policymaker after the President. Alfonsin holds him in high regard and frequently follows his recommendations. Sourrouille, who displays an easy rapport with Americans, has been especially sensitive to US policy interests because of his need for Washington's intercession with the IMF, the World Bank, and commercial banks in order to secure new lending for Argentina. Even so, Sourrouille retains a statist outlook on many issues, very probably including this one. As a result, the most Sourrouille could probably be expected to offer would be some gesture of good will toward the US that would do little to affect the status quo. [redacted]

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The day-to-day handling of negotiations on pharmaceutical issues is in the hands of Undersecretary for Foreign Trade Daniel Berdou, a second echelon Economy Ministry official. Berdou, a Peronist serving in a Radical government, has argued with conviction during negotiations that pharmaceuticals are unique, and that the Argentine people and domestic drug manufacturers need special protection. Although professional in manner, Berdou appears unlikely to give ground on pharmaceutical issues. Berdou's immediate superior, Industry and Foreign Trade Secretary Juan Ciminari, is favorably disposed toward the US and believes in opening up the Argentine economy to freer trade practices, according to US Embassy reporting, but is unlikely to support policy change on pharmaceuticals. Indeed, Ciminari believes Buenos Aires should take a low profile on bilateral trade issues, and prefers to follow precedents established by other major Latin American countries. Moreover, the US Embassy also reports that Ciminari frequently uses his position for personal gain, and is reportedly accepting bribes from the state telephone company to block its partial divestiture. [redacted]

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The Ministry of Health and Social Action--traditionally heavily involved in policy on pharmaceutical patents and clinical testing--is, in our judgment, even less disposed to changing current policies. Its Undersecretary for Regulation and Control, Dr. Sem Misael Albonico, has faithfully represented Buenos Aires's restrictive policies during negotiations with the US. [redacted]

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[redacted] Health Minister Ricardo Barrios Arrechea, the former Radical Party governor of Misiones Province and a doctor by profession, has been a strong advocate of populist economic measures, according to US Embassy reporting. We believe that any effort to directly involve him in bilateral negotiations would prove unproductive. [redacted]

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The Foreign Ministry is only tangentially involved in the bilateral pharmaceutical negotiations, but Foreign Minister Dante Caputo, a third world-oriented activist, has been pushing the government to advocate discussing the issue in a multilateral forum, where Argentina would gain allies. The Foreign Ministry keeps its Latin American neighbors, especially Brazil, informed of the status of its negotiations with the US, and follows pharmaceutical negotiations between other countries and the US with interest. We have seen no official or informal Argentine reaction to the movement toward US trade sanctions against Brazil. [redacted]

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Outlook: The Near Term and Beyond

We foresee few prospects for any change in Argentina's restrictive practices toward pharmaceuticals during the remaining 15 months of the Alfonsin administration. Alfonsin, who is under increasingly vociferous criticism from the public as well as congressional opposition, is unlikely to undercut his party's prospects in the May 1989 presidential election by undertaking a potentially unpopular policy initiative and risking charges of "caving in" to the US. Moreover, even if he wanted to adopt a new policy, we believe he would be constrained by domestic manufacturers' use of political connections to block any new legislation in Congress. [redacted]

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Over the longer term, Argentina's pharmaceutical policy will depend on the outcome of presidential elections. Although we have seen no specific statements by Carlos Menem, the Peronist candidate, on pharmaceutical issues, the Alfonsin government's policy is highly consistent with Menem's populist and nationalist orientation, and we doubt the Peronists would change course. Moreover, Menem's use of anti-US rhetoric during his campaign suggests he will almost certainly be less favorably inclined toward the US than members of the Alfonsin administration. [redacted]

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The outlook for liberalizing Argentina's pharmaceutical policies brightens if Radical Party candidate Eduardo Angeloz, a member of the party's conservative faction, wins the election. In our view, Angeloz, who generally supports market-oriented reforms, would be more likely to acknowledge the greater long-term benefits of patent protection for pharmaceuticals. He would likely have trouble, however, securing the passage of new legislation through what will almost certainly be a Peronist-dominated Congress. [redacted]

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