Quinine Price Rise Tied to U.S. Move

State Dept. Efforts To Aid Dutch Cartel Revealed at Hearing

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A tenfold rise in the price of quinine in the last few years was linked yesterday with efforts of the State Department to sell the Nation's entire stockpile to a worldwide Dutch cartel at the expense of American producers and consumers.

In opening four days of hearings, Chairman Philip A. Hart (D-Mich.) of the Senate Subcommittee on Antitrust and Monopoly said the price of quinidine, a quinine derivitive used by heart patients, "can quite literally be a matter of life and death."

A month's supply for an average patient could be bought for $1.50 to $2 a year and a half ago, Hart said, but now the price runs from $7 to $8.

Jerry Cohen, the Subcommitee's chief counsel, quoted from a General Services Administration memorandum

See QUININE, A15, Col. 2

that reported the State Department as "strenuously opposed" to domestic disposal of the quinine stockpile because it would upset relations with the Dutch and Indonesian governments.

As it turned out, Combinatie, the Dutch cartel, bought up all but 1 million ounces of the 9.8 million ounces sold as surplus since 1960. The remaining 4 million ounces of the U.S. stockpile has been frozen to ensure adequate military supplies for treatment of a new strain of malaria in Vietnam that resists synthetic drugs.

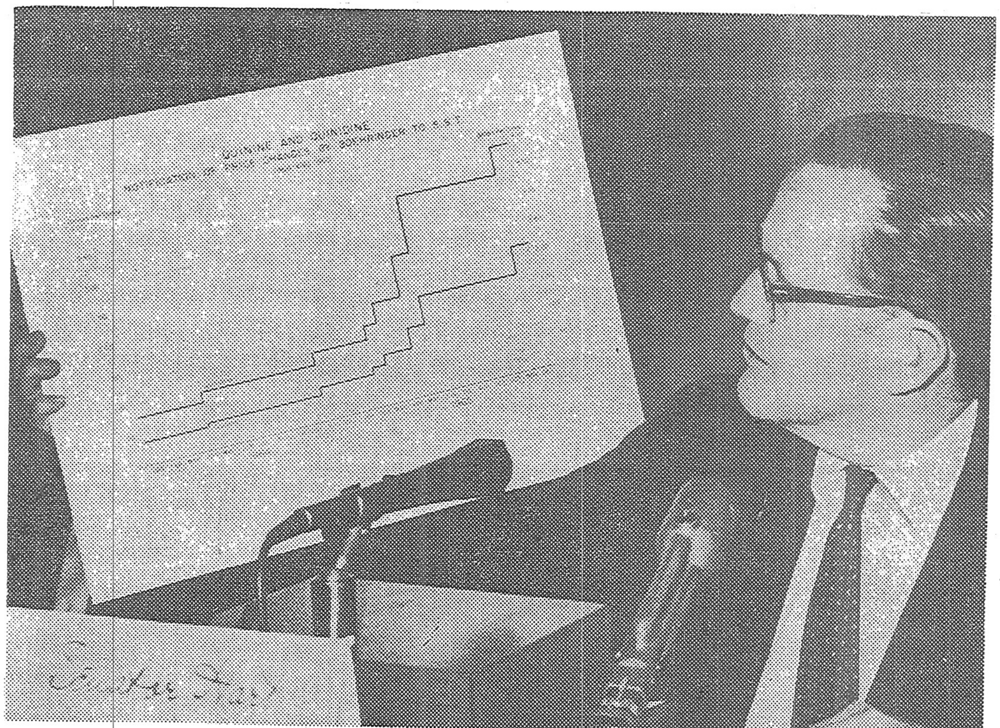
According to Hart, Combinatie bought the quinine at an average price of 20 cents an ounce and now sells it for for than $2 an ounce.

Cohen and Robert Price, Deputy Mayor of New York City who testified as former counsel to Hexagon Laboratories, Inc., both said Combinatie sought to gain control of the U.S. stockpile because it represented an uncertain overhang on the world market.

Price told The Washington Post after the hearing that, except for the U.S. stockpile, the Dutch cartel controls the entire world supply of quinine.

GSA, which presides over the Nation's stockpiles, actually approved the sale of the entire 13.8 - million - ounce quinine stockpile to Combinati at 6.6 cents an ounce in late 1958.

This was after the strenuous objections allegedly made by the State Department to sales to domestic firms. And



United Press International

EXHIBIT—Sen. Philip A. Hart of the Senate Antitrust and Monopoly Subcommittee examines a chart recording increase in quinine and quinidine prices in the last two years. The chart was shown by Hart's subcommittee yesterday.

it was after the GSA, in a notice published in the Federal Register, sought bids from foreign producers only on the ground that American companies did not have facilities to "rework" the quinine to bring it up to minimum standards of purity and potency.

According to Cohen, this limitation was based on advice of the Dutch cartel, which GSA accepted "apparently without any check or analysis."

Subsequently a domestic firm, the American Quinine Co., challenged this view and GSA ordered an assay of the stockpiled quinine by the Food and Drug Admiinstration. FDA found that the great bulk of the quinine already met the minimum standards and did not have to be reprocessed. GSA then revoked its approval of the sale to Combinatie.

In 1960, a member of the cartel, N. V. Nederlandsche Kininefabriek, bought a total of 4 million ounces as high bidder on three lots. On the third lot, Price testified, Hexagon bid 14 cents—"the highest we could consistent with sound economics" — against the Dutch firm's 18 cents. The latter was an amount "which we thought was in excess of their own cost," Price explained, adding that Kininefabriek was still under a Federal court injunction against monopolistic practices.

Later, U.S. firms were able to secure the intervention of the Small Business Administration and GSA split the remaining quinine, half of which was "set aside" for small business.

But the sales terms were "strangely onerous," Price testified, requiring both a 20 per cent deposit with the bid and an irrevocable sight letter of credit covering the remainder on the signing of the contract, although the quinine was to be delivered over a 5-year period. Price and another industry witness said they had never heard of such conditions in any other U.S. stockpile transaction.

Hexagon, which Price described as the only U.S. manufacturer of quinidine then, did secure the necessary financing and was the successful bidder on 2.2 million of the 4.7 million "set aside." (The Government later withdrew half the 2.2 million ounces and the matter is still under litigation, Price said.)

On the other 2.5 million ounces, Price continued, all bids by U.S. firms were thrown out because they failed to meet an "upset price" unknown to them. This portion was later sold to the Dutch cartel.

Cohen read a letter written 15 days before the small business bids were opened in which John G. Harlan Jr., deputy commissioner of GSA's Defense Materials Service, told Henry Brodie of the State Department: "For your official information only, our determination as to an acceptable price will be based on an upset figure equal to the lowest price accepted under the first unrestricted sale . . ." A GSA memorandum also read by Cohen indicated that the Dutch cartel was high bidder on that sale by a wide margin.