Vicious circle: Merck is having to close factories and labs, but it badly needs new products.

AP/D. HULSHIZER

Gauldie, a senior analyst at Wood Mackenzie, an Edinburgh-based consultancy. "The likes of Bristol-Myers Squibb and Pfizer are facing a huge threat from generics."

IMS Health, a Connecticut-based pharmaceutical consultancy, says the five biggest drugs to go off patent next year are Zocor, Pfizer's antidepressant Zoloft, Bristol-Myers Squibb's cholesterol-lowering drug Pravachol, Sanofi Aventis's sleeping pill branded as Stilnox or Ambien, and GlaxoSmithKline's Zofran, which prevents vomiting.

The end of patents for these lucrative products has weakened pharmaceutical stocks and led to rumblings that the era of the blockbuster drug may be coming to an end. Some analysts think that most of the best drugs for very common ailments may already have been discovered. On this assessment, the future of the industry lies in the trickier business of niche marketing relatively expensive treatments for rare or complex conditions.

In such an environment, Rauch describes the outlook for Merck as "very gloomy", and says that the company is "trading off its dividends". At present, Merck pays a generous 5% dividend to shareholders, making its stock attractive even to investors who do not expect its price to go up. Clark has already promised that he will keep the dividend at its current level.

Yet observers say that Merck has to offer investors more than a share in the cash bounty of its past proceeds. Unless the drug pipeline is fixed, they say, the company's long-term prospects are bleak — with serious ramifications for its rivals, large and small. "Merck is good for the pharmaceutical industry," says Rauch. "You can't make me-too drugs unless you have someone to copy." ■

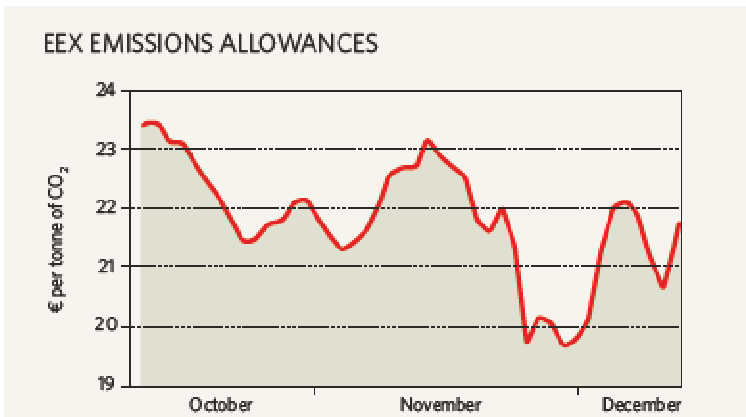
IN BRIEF

BREATHE EASIER Tobacco giant Philip Morris has embarked on a business alliance aimed at helping premature babies to breathe. The company, based in Richmond, Virginia, has joined up with Discovery Laboratories of Warrington, Pennsylvania, which makes an artificial surfactant — a protein-lipid substance produced in the lungs that is critical for breathing, but often missing from babies who are born more than a month premature. Philip Morris will use its proprietary aerosol technology to develop a device that will deliver the surfactant deep into the lungs.

VIRGIN TERRITORY Plans have been unveiled for a US$200-million private spaceport to be built near Las Cruces, New Mexico, in 2007. The state's economic development office says it has agreed tenancy terms for the project with Richard Branson's Virgin Galactic, which intends to put its headquarters there and use the facility as a launch site for space tourists. Virgin says 100 people have already paid $200,000 a ticket for suborbital jaunts on a vehicle to be built by California-based Scaled Composites, which won last year's X Prize for sending a privately developed vehicle to the edge of space.

BIOTECH FIGHTS BACK The US Biotechnology Industry Organization is spearheading a drive to shield small businesses from the requirements of a corporate ethics law that it says is too cumbersome for its member companies. Jim Greenwood, the former Pennsylvania congressman who is now the organization's president, is leading the push to relax the Sarbanes-Oxley law. The 2002 law tightened corporate accountability in response to accounting scandals surrounding the energy conglomerate Enron and other US corporations. Greenwood backed the bill when in Congress.

MARKET WATCH



The newspapers got excited when nations meeting in Montreal this month agreed plans to negotiate a successor to the Kyoto Protocol. But Europe's nascent market in carbon dioxide emissions took the talks in its stride, barely fluttering in response to the last-minute deal.

After a year of trading on the Leipzig-based European Energy Exchange (EEX), one of five such markets operating in Europe, the price of an allowance to emit one extra tonne of carbon dioxide during 2005–07 seems to be stabilizing at value of about €20 (US$24). A binding international agreement to cut emissions after 2012 would provide extra security for banks, companies and investors who own the options, analysts say — but improved prospects for the agreement haven't notably increased demand for them.

During the past two months, the price has stuck in a band between €19 and €24, following much wider fluctuations earlier in the year. Volume continues to grow: in the five markets, between 6 million and 10 million options are now sold every week, up from around 5 million a week in September.

Recent swings have reflected other climate-policy developments, says Marcel Hanakam of Frankfurt-based Climate Change Consulting. Reports in late September that the European Union might make aviation subject to emissions trading boosted the price, for example, and a court ruling that questioned the UK emissions allocation plan caused it to fall earlier this month.

Large companies in the European Union are allowed to emit a certain amount of carbon dioxide a year; if they require additional allowances they need to buy them on the emissions markets. ■

Quirin Schiermeier