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FT BIG READ

China healthcare - missing a beat

By Andrew Ward and Patti Waldmeir in Shanghai


BLOOMBERG

Andrew Witty, CEO of GlaxoSmithKline: "The center of gravity is moving east"

Not long after taking the helm of GlaxoSmith-Kline in 2008, Sir Andrew Witty visited Shanghai to deliver a message along with the heavy investment his company was pouring into China. "For GSK," he said, "the center of gravity is moving east."

For a while, the big strategic bets placed on China by GSK and other drug makers looked like paying off as the country's increasingly affluent, urbanized and ageing population clamored for access to modern healthcare.

By 2012, the market was growing at an annual rate of 24 per cent and surpassed Japan to become the second-biggest after the US. Then, suddenly, the party stopped. By the middle of this year, growth was down to just 5 per cent - bad news for an industry relying on places like China to offset stagnation in Europe and price pressures in the US.

To some extent, the slowdown reflects the adjustment facing multinationals in China as the economy cools, but the change in fortune for big pharma goes beyond a cyclical downturn. It has been triggered not by a drop in demand - on the contrary, China's need for medicines has never been greater - but by deep structural problems in the country's healthcare system.

Pharma companies are being squeezed as China tries to extract greater value from its USD150bn drugs bill and reform a hospital system whose finances have become unhealthily dependent on pushing pills. As Xudong Yin, chairman of the China arm of Novartis, says: "Whether you look at hospitals or pharma, the whole health system is unbalanced."

The most visible sign of trouble has been the GSK corruption scandal, which has badly derailed Sir Andrew's eastern ambitions. Last year, the UK group was fined Rmb3bn ($488m), a record Chinese criminal penalty, for bribing doctors and health officials to prescribe its medicines.

GSK's sales have fallen by almost a quarter since the crisis and the case sent a chill through the market as rivals tightened compliance procedures for fear of similar punishment. However, while others have so far avoided the fate of GSK, corruption remains endemic throughout the Chinese healthcare system, according to multiple people involved in the sector.

> **Pharma companies are being squeezed as China tries to extract greater value from its USD150bn drugs bill and reform a hospital system**

Poorly paid doctors can still top up their salaries by taking bribes from drug companies or receiving payments for speaking on their behalf at promotional events. Often these events never take place but the money is paid nonetheless. A Shanghai doctor can double his Rmb10,000 monthly salary by accepting two or three speaking engagements, according to the compliance officer of one western pharma group.

This has left multinational drug-makers facing a dilemma over how aggressively to clean up. Banishing bribery altogether is likely to mean sacrificing sales to local manufacturers still willing to offer kickbacks, but turning a blind eye carries risks should the Chinese authorities choose to make an example of another multinational.

"If you're the general manager of a foreign pharma company in China you're under pressure from headquarters to hit your sales targets but you're also thinking, 'I really don't want to go to jail,'" says one consultant in Shanghai.

GSK has been quickest to reform. The company's salesmen are no longer paid based on the volume of drugs they sell and have been barred from using expense accounts to entertain doctors. Others have been more reluctant to jettison hard-driving sales tactics, but all foreign companies have, to varying degrees, taken steps to halt the most egregious abuses.

"GSK has the unenviable luxury of having hit a brick wall and starting again," says Kent Kedl, senior managing director in China for Control Risks, who advises pharma companies on compliance. "The others have the challenge of fixing the wing while they're still flying."

Some Chinese pharma companies have also come under scrutiny from the authorities but they have been treated lightly compared with GSK. In addition to the threat of local penalties, multi- national groups also have to worry about the US justice department and UK's Serious Fraud Office, which are empowered to punish corruption committed overseas. GSK is under investigation by both. This pressure to halt kickbacks has removed some of the fuel that drove double-digit growth and helps to explain why foreign companies have slowed more sharply than local players.

The corruption clampdown is only one factor behind the downturn. At least as important has been the Chinese government's drive to cut drug prices.

The rapid expansion by foreign drug makers over the past decade was based on sales of "branded generics". These are old, off-patent medicines that command a premium over unbranded copies made by local companies. Until

China healthcare - missing a beat (continued)

recently, hospitals were willing to stump up for the more expensive option - in part because of their more reliable quality but also because they take a cut of the prescription price.

Chinese hospitals draw up to half their revenue from the 15 per cent mark-up they typically levy on drug sales, creating a structural inducement to prescribe pricey branded drugs even before any sweeteners are offered by sales reps.

Reforms launched this year were aimed at bringing the branded generics gravy train to a halt. New tendering processes are forcing manufacturers to offer discounts across entire Chinese provinces, with further negotiations at local level. Meanwhile, a scheme to scrap hospital mark-ups is under way in 100 major cities, with plans to double its scope.

Executives say they are happy to be weaned off branded generics provided it opens the way for adoption of more modern, patent-protected drugs. There has been an average lag of five to six years between a drug's launch in the US and Europe and its arrival in China. Efforts are under way to narrow this gap by speeding up the regulatory process.

Hervé Gisserot, GSK's general manager in China, believes this will make the country more rewarding in the long run but warns: "Price erosion will happen faster than adoption of new medicines."

Only 10 per cent of Chinese spending on medicines goes to patent-protected products, compared with about 70 per cent in the US. This reflects the inflated price of generics and the absence of new therapies.

"There are no reimbursed drugs in Chinese hospitals less than seven years old," says Mr Yin. "It is a very odd way of spending $150bn . . . If that money was spent in the right way it would provide a much healthier system."

No one - not even those who are threatened by pricing and compliance pressures - disputes China's urgent need to provide better quality, more affordable healthcare to more people.

> **No one disputes China's urgent need to provide better quality, more affordable healthcare to more people**

Beijing must cope with those demands while facing a surge in chronic diseases as its population rapidly ages.

"Today there are 150m people over 65 and that number is growing by 15m each year, so by 2029 China will have 300m people over 65," says Mr Yin. "That's the age group that needs healthcare (…) but there is no way the Chinese healthcare system can support a doubling of demand over 15 years."

Age-related growth in conditions such as cancer and heart disease is being accelerated by the mass migration from countryside to cities - a trend accompanied by more sedentary lifestyles and unhealthier diets. China already has three times as many diabetics as the US and the number is forecast to rise from 109.6m this year to 150.7m by 2040.

To meet the challenge, the Chinese government has been scrambling to widen access to care. Almost every citizen is covered by some kind of public health insurance.

"The rollout of universal health insurance coverage (…) is a huge achievement, but the coverage is shallow." says Jenny Yao, head of healthcare at KPMG in Shanghai.

Beijing is trying to deepen coverage: it plans to roll out subsidised critical illness insurance to nearly all citizens by the end of this year and to encourage development of a private medical insurance system. But many families still face crippling costs when relatives fall ill.

That makes patients angry, and trust in medics is low. The China Medical Doctors' Association recently found that 13 per cent of doctors surveyed had been physically attacked in the past year. Restoring trust could take years, since the deans of medical schools say they struggle to get strong students for a profession that offers low pay, little prestige and physical danger. Doctors are paid on average one-fifth the amount received by their counterparts in Europe and are required to see up to 150 patients a day.

At the core of the problem is an overreliance on hospitals and absence of family doctors. "There is no other country in the world where it is entirely hospital based," says Mr Gisserot. China is trying to develop a primary care system but it will take years to build the infrastructure and persuade patients to use it.

The structural reforms would be hard enough without the simultaneous challenge of reducing the dependence of public hospitals, and their poorly paid doctors, on drug mark-ups and kickbacks. This model not only encourages wasteful spending but also contributes to the over-prescription of antibiotics, which is fuelling the rise of drug- resistant superbugs.

The government aims to reduce the contribution of drug sales to hospital revenues from 50 to 30 per cent, with higher service fees helping to shift the balance. The transition, though, is likely to be slow and choppy. "It's a trade-off between wanting to reform and reduce spending versus not undermining hospital revenues," says Eric Shao, of IMS, the healthcare consultancy, in Shanghai. "If you just take away mark-ups, hospital budgets will collapse."

China's breakneck growth was fuelled by mass mobilisation of the labour force, but it must embrace change in areas such as healthcare, education and the environment to narrow the gap with the developed world in wealth and quality of life. "Bringing about this next stage of reform will be much harder," Mr Kedl says.

For pharma companies, this cocktail of policy, compliance and regulatory challenges is making China look a much trickier market. IMS forecasts that growth will remain below 10 per cent until at least 2020, while Mr Yin says the transition to a more balanced and sustainable system will take 10 to 15 years.

The long-term opportunity for big pharma in China is as great as ever as its ageing population becomes more sickly, but the eastward shift in gravity predicted by GSK six years ago is taking longer and proving more bumpy than anyone expected.

Compliance: Determined reps can still bend the rules


BLOOMBERG

How much has changed in China's healthcare market since GlaxoSmithKline was fined Rmb3bn last year for "massive and systematic" bribery of doctors? Sales representatives working for foreign pharma and medical device companies in Shanghai told the Financial Times that their employers had clamped down on the forged expense claims that previously financed kickbacks.

They said, though, that some companies still funneled money to doctors through generous fees to speak at seminars or by turning a blind eye to bribes by local partners.

A compliance officer for a western drug maker admitted the incentive for malpractice was still strong. "For a sales rep, if you don't hit your targets for a couple of quarters you will be fired. If you do something that is not compliant you might get caught."

GSK has tried to change this equation by removing the link between sales and pay. Its reps are now paid a bigger base salary with a bonus based on measures such as how many doctors they meet and how much they know about the products they are selling. Some however, have already found a way to bend the rules. One GSK rep told the FT that, without a direct incentive to sell, he was pocketing the increased base salary but spending his time moonlighting for a Chinese drug company still willing to pay bribes.

Most foreign companies are trying to strike a balance between tightening compliance without removing the motivation for reps to hustle in a fiercely competitive market.

The big unknown is whether the GSK fine was a one-off warning shot or whether others will be targeted. "Because they went after one, it creates the fear of arbitrary enforcement," says Daniel Roules, Shanghai-based managing partner at Squire Patton Boggs, a law firm. "The inability to predict if they might come after you is more intimidating than a consistent environment where everyone faces the same risks."

Alibaba agrees to buy Hong Kong's South China Morning Post

ALIBABA Group Holding Ltd., the e-commerce giant headed by billionaire Jack Ma, agreed to buy Hong Kong's South China Morning Post and other affiliated media assets as the Internet tycoon follows in the footsteps of Jeff Bezos in pursuing the revival of a century-old newspaper.

Though financial terms weren't disclosed, Alibaba said in a statement on Friday that the purchase will include the flagship newspaper and related businesses including the Hong Kong editions of Esquire, Elle and other magazines, and recruitment. The Chinese company also said it will scrap the publication's Internet pay wall and that editorial decisions will be made "in the newsroom, not in the corporate boardroom."

The SCMP, once the envy of the industry in terms of profitability, has in recent years joined other mastheads in struggling to attract advertisers amid the rise of free publications online. Control of the city's premier English-language broadsheet has been unchanged since media magnate Rupert Murdoch sold most of his stake to Malaysian billionaire Robert Kuok in 1993.

"Jack Ma is such an innovative and visionary figure that the future of the South China Morning Post under his control may actually be somewhat brighter," said Peter Schloss, managing partner of CastleHill Partners LLC, a Beijing-based advisory and investment company. "Robert Kuok has lost interest in it. Jack would come in and invigorate it to move it firmly in the digital space."

AP PHOTO

Copies of South China Morning Post are sold at a news stand in Hong Kong


Alibaba Group Executive Chairman Jack Ma

> Jack Ma would be doing the central government a favor by ensuring that the SCMP is in friendly hands.
>
> PETER SCHLOSS

For Alibaba, the purchase of the publication would raise the profile of its growing media empire. In June, Alibaba announced the purchase of a stake in one of China's most influential business media companies and months later, helped set up a media and entertainment company called CMC Holdings.

It's not just news. In November, Alibaba agreed to buy video service Youku Tudou Inc. to stream more content to Chinese Internet users through control of the YouTube-like site, and also invested in Paramount Pictures' latest "Mission Impossible" movie through its Alibaba Pictures Group unit.

Alibaba's Ma also follows Amazon.com Inc.'s Bezos - who bought the Washington Post in 2013 - among Internet tycoons snapping up storied brands at a time printed media struggles to compete with Web-based competitors for advertising. Chris Hughes, one of the co-founders of Facebook Inc., bought a majority stake in the New Republic magazine in 2012. Axel Springer SE, the German media company led by Mathias Doepfner, bid for the Financial Times earlier this year, which was sold to Japan's Nikkei Inc. for $1.3 billion.

Back at the SCMP, the sale gives the 112-year-old newspaper an owner armed with more than 100 billion yuan (USD15.5 billion) in cash and investments. SCMP Group, the paper's listed parent, has seen three years of profit declines and had it not been for some extraordinary gains, its latest semiannual profit would have plunged more than 40 percent.

Alibaba is taking on the media business, which includes the newspaper and magazine publishing operations that generate more than 90 percent of the SCMP Group's revenue and about 65 percent of adjusted operating profits. Besides newspapers and magazines, the SCMP also has a business segment that leases out various real estate properties.

But, the pace of Alibaba's acquisitions has made some investors uneasy. Just this year, Alibaba has 27 deals pending or completed, excluding the SCMP, totaling USD15 billion. Investors worry Alibaba is not focused enough on its core business of e-commerce, according to Henry Guo, a Summit Research Partners analyst.

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"Investors are increasingly concerned about the company's spending," Guo said. "It's hard to predict how the media content is going to play out for Alibaba for the next three, four, five years."

Alibaba's U.S.-traded shares slumped, along with the broader markets. The stock fell 5.4 percent to USD79.74 at the market's close in New York, bringing the decline for the year to 23 percent.

Still, given the newspaper's influence, the deal may have implications beyond just profits and sales.

"Jack Ma would view an acquisition of the South China Morning Post as a national service," Schloss said. "He'd be doing the central government a favor by ensuring that the South China Morning Post is in friendly hands."

SCMP Group has been suspended from trading since February 2013 after the company failed to have at least 25 percent of shares held by minority investors, the minimum proportion required for a company to trade its shares in Hong Kong. **Bloomberg**

More freedom to report in HK

THE Post and other news media in the former British colony have more freedom to report because the city has a mini-constitution that guarantees freedom of the press and other civil liberties not seen on the mainland. However, there's widespread concern that press freedom is shrinking as Beijing, which took control of Hong Kong in 1997, tightens its grip on the city.

The 112-year-old Post was once reputed to be the world's most profitable newspaper on a per-reader basis although its fortunes have suffered in line with the wider decline in the traditional newsprint industry as readers shift to online news sites.

Its influence has also been overtaken by Chinese dailies since Beijing took control of the city from Britain in 1997, although it still retains an important position among the city's English-speaking elite.

"Why is Alibaba buying into traditional media, considered by some a sunset industry? The simple answer is that we don't see it that way," Alibaba Executive Vice Chairman Joe Tsai mentioned in a statement, as he outlined a lofty vision of marrying Alibaba's experience in technology with the Post's journalism

AP PHOTO

track record to create a China-focused media giant with an international audience.

As part of its goal to broaden its readership, the company plans to stop charging for access to the Post's website, SCMP.com, Joe Tsai also mentioned.

"Our vision is to expand the SCMP's readership globally through digital distribution and easier access to content," he said.

The newspaper's magazine division has a license to publish the local Chinese-language editions of Cosmopolitan and Harper's Bazaar. It also has a stake in the Bangkok Post newspaper. It took its first step into e-commerce in October by buying a majority stake in fashion site MyDress.com.

The newspaper's current owner, Malaysian sugar tycoon Robert Kuok, bought it thr through his Kerry Group from media mogul Rupert Murdoch in 1993.

SCMP Group's net profit has declined for the past four years, falling last year to 137 million Hong Kong dollars (USD17.7 million) on HKD1.2 billion in revenue, according to its latest annual report. Its stock has been suspended from trading on Hong Kong's stock market since February 2013, when the number of shares freely traded by the public fell below the exchange's minimum requirement. **MDT/Agencies**

> There's widespread concern that press freedom is shrinking

ANALYSIS

Now comes the tough part: The world's carbon diet starts

By Seth Borenstein


AP PHOTO

THE world is about to go on a carbon diet. It won't be easy — or cheap.

Nearly 200 nations across the world on Saturday approved a first-of-its-kind universal agreement to wean Earth off fossil fuels and slow global warming, patting themselves on the back for showing such resolve.

Yesterday morning, like for many first day dieters, the reality sets in. The numbers — like calorie limits and hours needed in the gym — are daunting.

How daunting? Try more than 7.04 billion tons (if you really want to have your eyes bug out, that's 15.5 trillion pounds). That's how much carbon dioxide needs to stay in the ground instead of being spewed into the atmosphere for those reductions to happen, even if you take the easier of two goals mentioned in Saturday's deal. To get to the harder goal, it's even larger numbers.

In the pact, the countries pledged to limit global warming to about another degree Celsius (1.8 degrees Fahrenheit) from now — and if they can, only half that.

Another, more vague, goal is that by sometime in the second half of the century, man-made greenhouse gas emissions — which includes methane and other heat-trapping gases as well as carbon dioxide — won't exceed the amount that nature absorbs. Earth's carbon cycle, which is complex and ever-changing, would have to get back to balance.

In practice, that means the world has to emit close to zero greenhouse gases by 2070 to reach the easier goal, or by 2050 to reach the harder one, said John Schellnhuber, director of the Potsdam Institute for Climate Impact Research in Germany.

Oh and by the way, the harder goal — limit warming by another half a degree Celsius (0.9 Fahrenheit)— is probably already impossible, said Joeri Rogelj at the International Institute for Applied Systems Analysis in Austria. Most likely the best the world can hope for is overshooting that temperature by a few tenths of a degree and then somehow slowly — over decades if not centuries — come back to the target temperature.

That may involve something called negative emissions. That's when the world — technology and nature combined — take out more carbon dioxide from the air than humanity puts in. Nearly 90 percent of scenarios of how to establish a safer temperature in the world involves going backward on emissions, but it is also so far not very realistic, said Kevin Anderson, deputy director of the Tyndall Centre for Climate Change Research in Britain.

Negative emissions involve more forests, maybe seeding the oceans, and possibly technology that sucks carbon out of the air and stores it underground somehow. More biomass or forests require enormous land areas and direct capture of carbon from air is expensive, but with a serious sustained research effort costs can probably be brought below $100 per metric ton, said engineering and policy professor Granger Morgan of Carnegie Mellon University.

Leading up to the Paris Agreement, nearly every nation formed an individual action plan to cut or at least slow the growth of carbon pollution over the next decade or so. Richer nations that have already developed, like the United States, Europe and Japan, pledged to cut now. Developing nations that say they need fossil fuels to pull themselves out poverty pledged to slow the rate of growth for now, and to cut later.

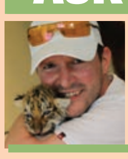
"The EU and U.S. are all on Slim-Fast," said Paul Bledsoe, a former Clinton administration climate official. "China's still hitting fast food, but will have to stop soon."

China, the world's top carbon polluter, will eventually have to make the biggest cuts. Overall, for the world to hit its new target, global carbon dioxide emissions will have to peak by 2030, maybe earlier, and then fall to near-zero, experts said. Those levels have been generally rising since the industrial revolution. A new study suggests emissions may have fallen slightly this year, but that may be a blip.

Without any efforts to limit global warming, the world would have warmed by 3.5 degrees Celsius (6.3 degrees Fahrenheit) from now by 2100, according to Climate Interactive. But China's submitted plan alone would cut that projected warming by 1.3 degrees, according to Climate Interactive. The U.S. plan trims about six tenths of a degree of the projected warming without a global deal.

And while China is now the No. 1 carbon dioxide polluter with more than a quarter of the world's emissions, carbon dioxide stays in the air for at least a century, so historical emissions are important. Since 1870, the U.S. is responsible for 18 percent of the world's carbon pollution, compared to 13 percent for China. **AP**

ASK THE VET



by Dr Ruan Du Toit Bester

How serious is puppy coughing? Five possible causes

Puppy coughing can be the result of something as simple as exposure to cigarette smoke or it can be as serious as a collapsed trachea. Because puppy coughing is a common symptom of literally dozens of different dog conditions and diseases, the best way to figure out what is causing your puppy's cough is to take him to the vet.

Knowledge of the possible causes of puppy cough is important as well, whether you plan to pay a visit to your vet or not. This article will discuss five possible causes of puppy coughing.

PUPPY COUGHING CAUSED BY ALLERGIES AND IRRITANTS

Our homes are filled with everything from dust to minuscule pieces of floating fabric from carpets, clothing, and upholstery. Some puppies will experience nasal irritation and throat irritation from breathing in particles in the air, cigarette smoke and even perfume. When the throat and nasal passages become inflamed or even mildly irritated, this will cause the puppy to cough. To relieve puppy coughing from allergens and irritants, simply remove the irritant from the home and keep the area clean and free from dust. Humidifiers are useful as well.

PUPPY KENNEL COUGH

Kennel cough is caused by a type of bacteria called Bordetella bronchiseptica, and it can only be contracted from contact with another infected animal. Symptoms include dry cough and sneezing. In some cases, coughing may only occur if the dog is excited or active. Kennel cough is rarely fatal, and it is easy to treat with a 2-3 week round of antibiotics.

HOOKWORM AND ROUNDWORM

Hookworm and roundworm are common in puppies and they can be treated through antibiotics and preventative care such as specially formulated medications that kill parasites. These medications are typically administered to the puppy on a monthly schedule. Hookworms and roundworms cause coughing during the migration stage. Hookworm and roundworm larvae make their way to the pets intestines through the bloodstream. When the larvae reach the pet's lungs, the pet coughs it up, then it is re-swallowed.

CONGESTIVE HEART DISEASE

The number one symptom of congestive heart disease is coughing. Pressure on the puppy's trachea and fluid in the lungs are the main causes of cough in these cases. While congestive heart disease is commonly seen in older dogs, it may be present at birth.

HEARTWORM

The battle with heartworm is a lifelong one for a pet. Puppies will receive their first heartworm vaccination at 8-15 weeks and the booster will continue each year for life. The reason dogs must continue this regimen throughout their lives is due to the way in which heartworm is transmitted. Heartworm is transmitted through mosquito bites. The mosquitoes ingest microscopic larvae, which are transferred to the dog through the dog's skin. The larvae migrate to the dog's heart, where they will remain lodged until treated. Until then, the larvae will cause inflammation in the heart and lungs, which will cause a dry cough. Unfortunately, by the time symptoms such as coughing appear, the larvae have already caused a significant amount of damage to the heart and lungs. Heartworm treatment will eliminate the worms, but it will not repair the damage done by them. So please, be diligent in your efforts to protect your pet against heartworm. Have your pet vaccinated and see your vet for yearly boosters.

Hope this helps
Till next week
Dr Ruan

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