

APPENDIX E: PHARMACEUTICALS AND RESPONSIBLE PRACTICE IN EMERGING MARKETS

Background

There is growing awareness of the serious risks to regional and global political and economic stability posed by the crisis in public health in the developing world.^{1&2} An early manifestation of this has been the high profile debate about affordable access to HIV/AIDS treatment, a debate which resulted in the global pharmaceutical industry facing criticism from a powerful coalition of stakeholders including newly industrialising countries like South Africa and Brazil, inter-governmental organisations like the World Health Organisation and influential international non-governmental organisations.

Pharmaceutical companies have expressed concern about the resultant risk to their reputations³ and licence to operate, particularly given the possibility of competition from generic manufacturers and even threats to the international patent system. The sector's response has been to expand existing initiatives and to create new programmes of activity on a range of "corporate social responsibility" fronts.

Some have expressed doubts, however, about the effectiveness of these initiatives and their impact on the ground. NGOs in particular have raised questions about the scope, depth and durability of the various programmes and have proposed a set of benchmarks for assessing some aspects of CSR performance in the developing world.⁴

Analysts and institutional investors who are focused on the short and medium term have expressed concerns that the sector may be at risk of giving away its future profitability, thus acting as a brake on what company management feel confident about doing in relation to access to medicines and other CSR issues. Other investors, particular those who have an interest in reputational risk and/or corporate social responsibility, have engaged with pharmaceutical companies to encourage a more stakeholder-inclusive approach to this debate.

Senior management are thus faced with increasingly contradictory demands. It is therefore in all parties interest if the owners of such companies, who have a long-term commitment to the sector, make clear how they will evaluate the adequacy of the sector's response, making informed judgements about what is a reasonable and practical share of responsibility for companies in tackling these issues.

Such consensus could be of significant assistance to the senior managers of pharmaceutical companies in their dealings with analysts, governments, NGOs and

¹ http://www3.who.int/whosis/cmh/cmh_report/e/pdf/001-004.pdf

² Prof. Joseph Nye, International Herald Tribune, 2/9/2002; see [http://www.iht.com/ihtsearch.php?id=69357&owner=\(International%20Herald%20Tr](http://www.iht.com/ihtsearch.php?id=69357&owner=(International%20Herald%20Tr)

³ There has been particular concern about the impact of reputational damage on staff morale and relationships with key intermediaries such as the medical profession and shareholders.

⁴ Oxfam, VSO & SCF report. "Beyond Philanthropy – the pharmaceutical industry, corporate social responsibility and the developing world".

also internally by giving direction to the change programmes necessary to deliver their CSR commitments.

Objectives

The prime objective of the project is to develop a framework of responsible practice in relation to pharmaceutical companies' operations in emerging markets. The primary users of such a framework will be investors engaging with companies, fund managers, rating agencies, analysts and company management.

In practice this will involve understanding and articulating what institutional investors feel is acceptable and practicable, taking into account the views of companies and other stakeholders. The project may well identify a set of issues around which there is an emerging consensus and a further set around which there is less or none.

Activities

The following activities are envisaged for the project as a whole:

- stakeholder consultations, initially by interview and subsequently by e-mail.
- the drafting of the framework document
- one or more roundtables
- a public launch.

Outputs

One of the main goals of the project will be an increased consensus on what constitutes responsible practice in relation to pharmaceutical companies' operations in emerging markets. This should emerge from all project activities.

There will also be a written deliverable, the framework. This is likely to be a short document (3-5 pages) covering: the business case for responsible behaviour in this area; description of the relevant issues; potential solutions to the issues and disclosure options, including a set of relevant indicators. Where possible, the study will seek to define desirable good practice standards, both for the solutions and for the disclosure options.

Project Participation

The project has been commissioned in partnership with ISIS Asset Management. To secure maximum consensus, a wide range of concerned parties will be interviewed in depth including companies, investors and analysts, NGOs, academics and government representatives. Subsequently a second, broader consultation may be conducted, probably by e-mail. This would ensure that the majority of major pharmaceutical companies and as many other interested parties will have been contacted and had the opportunity to contribute during the project.