



**PRESS RELEASE**

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**Investors Conclude  
“Pharmaceutical Companies Could Do More” to Address the Public  
Health Crisis in Emerging Markets**

Pharmaceutical companies should develop a more effective strategy on the public health crisis in emerging markets according to a report published today (20 September) by the Pharmaceutical Shareowners Group (PSG).

In the report, PSG, a group of fourteen global financial institutions, outlines what it believes to be eight key elements of a good corporate strategy for addressing the crisis and responding to the risks and opportunities the issue poses for the sector (see Note B below).

The report calls for companies to clearly articulate the business rationale behind their response to the public health crisis in emerging markets and highlights the need for innovation, forward thinking, board leadership and transparency relating to political lobbying and performance. The report follows a year long engagement programme by PSG with seven leading global pharmaceutical companies.

Jo Allen, Chair of PSG and Head of Engagement Strategy at Co-operative Insurance Society (CIS) commented:

*“The pharmaceutical sector has faced extensive public criticism for failing to play an adequate role in addressing the health crisis in developing countries over recent years. Our perception is the sector thinks it has now done enough to contain these risks. As the focus for responsibility has rightly moved back to governments, PSG agrees with this view for now. However, going forward there are fundamental dynamics, such as the growing power of emerging markets, including Brazil and China, the impact of AIDS in these countries and growing diseases of affluence, which will present a challenge to pharma companies in relation to access to patented drugs in emerging markets. We aren’t convinced the sector is ready to face that challenge.”*

*“PSG want to encourage best practice in this area where this can protect long-term shareholder value. We welcome the significant progress that has been made recently by all of the companies we met. Leading companies such as GSK and Merck demonstrate many of the elements of what we consider to be an effective strategy. However, given the scale of the challenge we think that all companies could do more.”*



PSG found that companies themselves acknowledged the need to address the public health crisis and recognised the commercial reasons for doing so, such as defending the “social contract” and protecting legitimate pricing in mature markets. The report concludes that a more integrated and forward looking strategy is needed.

Responding to the report, Tim Breedon, Chief Investment Officer of Legal & General, a PSG member, stated:

*“We have heard from companies that the public health crisis poses business risks and opportunities. However, it is currently difficult for investors to determine how well companies are managing these risks when disclosure is not systematic nor linked to core business strategy. The good practice strategy guidance issued by PSG is a valuable contribution to this problem and we would encourage the industry to consider it.”*

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### **Key Press Contacts**

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### **Editors Notes**

#### **A) Background to PSG & Engagement Programme**

The Pharmaceutical Shareowners Group (PSG) is an international grouping of institutional investors that have significant exposure to the pharmaceutical sector. PSG is concerned that the sector has faced extensive public criticism over the last five years, with potential negative impacts on its reputation and licence to operate. While this criticism has spanned many issues, including drugs pricing in the US and allegations of misconduct in areas such as clinical trials and marketing, a key issue has been the sector’s response to the HIV/AIDS pandemic and the wider public health crisis in emerging markets. PSG has a particular interest in the impact of this issue on long-term shareholder value (see [www.pharmashareownersgroup.org](http://www.pharmashareownersgroup.org)).

#### *Members of PSG include:*

Central Finance Board of the Methodist Church; Co-operative Insurance Society; Ethos Investment Foundation; Henderson Global Investors; I.DE.A.M (Groupe Crédit Agricole); Insight Investment; ISIS Asset Management; Jupiter Asset Management; Legal & General Investment Management; Morley Fund Management; PGGM Investments; Schroder Investment Management (UK); SAM Sustainable Asset Management; and Universities Superannuation Scheme.

#### *Engagement Programme:*

In March 2003, the group launched the *Investor statement and framework on pharmaceutical companies and the public health crisis in emerging markets*. The aim of the statement and framework was to encourage companies to ensure that they were fully briefed about the risks stemming from the public health crisis in emerging markets and also to assess how well companies were managing these challenges.

Between June 2003 and April 2004 PSG met with *AstraZeneca plc, Bristol-Myers Squibb Company, GlaxoSmithKline (GSK) plc, Merck & Co Inc., Novartis AG, Pfizer Inc., and Roche Group* to discuss issues raised in the framework.

#### **B) Highlights from the PSG Report**

The report is entitled *“The Public Health Crisis in Emerging Markets: An Institutional Investor Perspective on the Implications for the Pharmaceutical Industry”, September 2004.*

The report identifies a number of commercial reasons for companies to address the public health crisis including

- Defending the “social contract” between governments, society as a whole and pharmaceutical companies, upon which intellectual property law and future innovation depends;
- Limiting the potential for emerging market countries to opt out of or otherwise weaken international patent treaties;

- Protecting company reputation and licence to operate with potential impacts on pricing power in the US and other lucrative markets;
- Building political goodwill to help secure future markets;
- Improving stakeholder relations;
- Enhancing employee morale and recruitment prospects.

Based on engagement with companies and wider discussions, the PSG report highlights eight key elements that make up a good practice strategy for addressing the public health crisis in emerging markets. The report encourages companies to:

- Articulate the business case for action and its potential impact on long-term value/risk.
- Promote leadership at board level.
- Take a forward-looking approach that takes account of evolving disease burdens and consumer demand over the next 10-20 years.
- Objectively assess alternative options.
- Show flexibility and breadth.
- Collaborate and share best practice.
- Demonstrate responsible use of influence in public policy.
- Track performance and be transparent.

### C) Additional Information

#### *Data on the public health crisis:*

- The *United Nations Population Division* forecast that AIDS will kill 46 million people this decade in the 53 worst affected countries. This is forecast to rise to 278 million by 2050.
- Only 5% of those in the developing world who require antiretrovirals (ARVs) are getting them, *The World Health Report, WHO 2003*.
- The *UNAIDS 2004 Report on the Global AIDS Epidemic* provides the following statistics:
  - In 2003, almost 5 million people became newly infected with AIDS/ HIV, 3 million of those within sub-Saharan Africa.
  - More than 20 million people have died of AIDS since the first diagnosis in 1981.
  - Almost 38 million people are living with HIV.
  - In Swaziland, Zambia and Zimbabwe, without antiretroviral programmes, average life expectancy is predicted to drop below 35.
- Tuberculosis (TB) kills approximately 2 million people each year. It is estimated that between 2002 and 2020, approximately 1000 million people will be newly infected, over 150 million people will get sick, and 36 million will die of TB - if control is not further strengthened. (*WHO fact sheet on TB*).
- Malaria - 300 million acute illnesses and 1 million deaths per year with increased resistance to existing treatments. Malaria kills an African child every 30 seconds. (*WHO Roll Back Malaria programme*).
- Of the 1,393 total new drugs approved between 1975 and 1999, only 1% (13 drugs) were specifically indicated for a tropical disease. (*Medecins Sans Frontieres*).

#### *Political Context:*

The global public health crisis is undeniably on the international political agenda. The UK's presidency of both the G8 and EU in 2005 means that focus on these issues is unlikely to dissipate, given the stated views of both the Chancellor of the Exchequer and the Prime Minister. In its recent policy paper, *Increasing Access to Essential Medicines in the Developing World: UK Government Policy and Plans, June 2004*, the UK government makes explicit its commitment to encouraging commercially viable responses to the needs of developing countries. The internationally agreed Millennium Development Goals also place a strong emphasis on health outcomes including the need to tackle the burden of HIV/AIDS and other major diseases. In the *2003 World Health Report*, WHO Director General, Lee Jong-wook, highlights his "despair over the failure to control disease [in some parts of the world] although the means to do so exist".

#### *Diseases of Affluence:*

Incidences of non-communicable diseases associated, such as cardiovascular disease, cancers, diabetes, respiratory disease and obesity are increasing in emerging markets. WHO projections estimate that two-thirds of all cancer cases will occur in developing countries by 2015 and over 70% of the global burden of disease will be caused by chronic non-communicable diseases by 2020.