

China Anticorruption & Antitrust Campaigns: **Impacts on Pharmaceutical Pricing and Procurement**

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OUTLINE

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- **Anti-corruption Campaign:**

A continuing emphasis on cracking down corruption in healthcare sector

- **Anti-trust Investigations:**

Launched anti-trust investigations into various industries

- **Impacts on Pricing and Procurement**

- The sustained impacts from the reform of the medical and health in China
- The specific impacts from both anticorruption and antitrust campaign :
- How to react when facing the change & challenge

Anti-corruption Campaign:

A continuing emphasis on cracking down corruption
in healthcare sector

A Continuing Emphasis on Cracking down Corruption in Healthcare Sector

- A series of probes against foreign pharmaceuticals in 2013
- More than half of all pharmaceuticals operating in China are being investigated from large multinational firms to Chinese state-owned enterprises
- Probes in the pharmaceutical sector are becoming a weekly occurrence



Updates on National Regulations

Commercial Bribery Blacklist

Circular of the National Health and Family Planning Commission (“NHFPC”) on the Establishment of Commercial Briberies blacklist in the Medicine Purchase and Sales Industry (2013.12.25)

No. of times being listed	Public medical institutions	
	Within the Province	In other provincial areas
Listed on the commercial bribery Blacklist once	prohibited from purchasing the drugs, medical devices, or medical disposables for two years	In the evaluation of bidding and procurement, the evaluation points of the products shall be deducted for two years
Listed on the blacklist twice within five years	All public medical institutions in China are prohibited from purchasing the drugs, medical devices, or medical disposables for two years.	

- Medical institutions must sign purchase contracts along with an integrity agreement that lists the names of relevant sales representatives and contain anti-bribery language.
- The blacklists will include those found guilty of relatively minor bribery but who may not have been punished by China's courts or prosecuted by the procuratorate, as well as those who have received administrative punishments from sector and financial watchdogs or investigations from discipline inspection organs.

Implementation Rules for the Medical Device Blacklist System (2014.02.26)

- NHFPC requires provincial health authorities to amend their local blacklist systems and promulgate detailed implementation rules by March 2014.
- County-level health authorities are required to report to higher-level authorities commercial bribery penalty decisions that come to their knowledge within five working days.
- local rules will be stricter than the central agency rules.



Updates on National Regulations

“Nine Don’ts”

Circular of NHFPC and State Administration of Traditional Chinese Medicine on Nine Don'ts for Enhancement of the Construction of Industry Discipline in Medical Health

No.	Nine Don'ts
1	Do not align the income of medical personnel with the income from medicine and medical examinations
2	Do not bill on a commission basis
3	Do not charge in violation of provisions
4	Do not accept social donations or funding in violation of provisions
5	Do not participate in any promotional activity or publish any medical advertisement in violation of provisions
6	Do not conduct prescription statistics for commercial purpose
7	Do not privately purchase and use the medicine products in violation of provisions
8	Do not accept rebates
9	Do not accept "red envelope" from patients

Circular of NHFPC on prohibiting both doctors and patients from receiving and giving “red envelope” (2014.02.20)

- Patients and doctors to sign an agreement of not to give or receive an “red envelope”, requiring grade II and above medical institutions in the country to implement this regulation
- Shall be effective on 2014.05.01

Measures on cost management of going abroad on business for Short-term training purpose (2014.02.25) (“Measures on abroad training cost management”)

- Training team is prohibited from receiving sponsorship from enterprises
- Effective on 2014.04.01



Anti-trust Enforcement:

Launched anti-trust investigations into various industries

Launched anti-trust investigations into various industries

- NDRC has launched several antitrust investigation since 2011

Time	Situation	Fines
2011	NDRC imposed penalties of more than RMB 7 million on two Shandong pharmaceutical companies for their anticompetitive conduct.	RMB 7 million
2011	NDRC launched an antitrust investigation into China Telecom and China Unicom, the two largest state-owned telecommunication companies, which were alleged to have abused their dominance through price discrimination.	/
2011	NDRC issued a fine of RMB 2 million to Unilever for publicly announcing a potential price increase of around 10 percent for some of its household products.	RMB 2 million
2013	NDRC imposed penalties of RMB 668.73 million on six baby milk formula producers for resale price maintenance practices.	RMB 668.73 million
2013	NDRC imposed record penalties of RMB 449 million on two liquor companies, ("Wuliangye" and "Maotai") for resale price maintenance practices.	RMB 449 millior
2013	NDRC imposed sanctions of close to RMB 353 million on six liquid crystal display (LCD) makers from Korea and Taiwan, including Samsung and LG, accusing the companies of illegal price-fixing.	RMB 353 millior
2014	NDRC fined 12 Japanese auto parts makers a record RMB 1.235 billion for manipulating prices.	RMB 123.5 milli



Impacts on Pricing and Procurement

- I. The Sustained Impacts from the Reform of the Medical and Health

The sustained impacts form the reform of the medical and health in China

- The initial reform plan was proposed in 2000
- The latest regulations issued by NDRC: Key Work of Deepening the Reform of the Medical and Health Care System in 2014
- Ultimate goals include:
 - To compress pharmaceutical prices
 - To reduce hospital reliance on drug revenues
 - To enhance insurance schemes
 - To support local players

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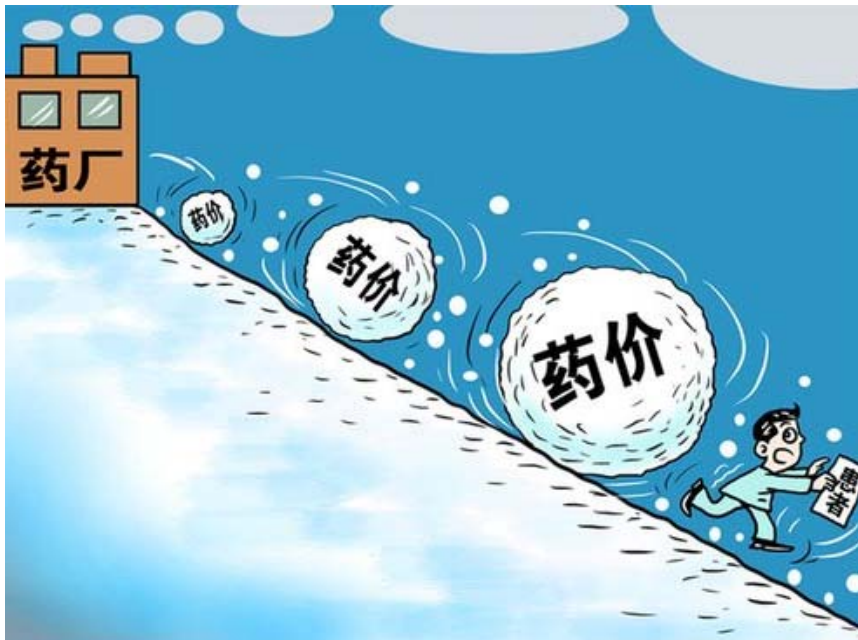


Impacts on Pricing and Procurement

II. The Specific Impacts from both Anticorruption and Antitrust Campaign

1. Compress Pharmaceutical Prices

- The ultimate goal of anti-corruption and anti-trust campaign into pharmaceutical industries is to **compress the end use price**.



1. Compress Pharmaceutical Prices

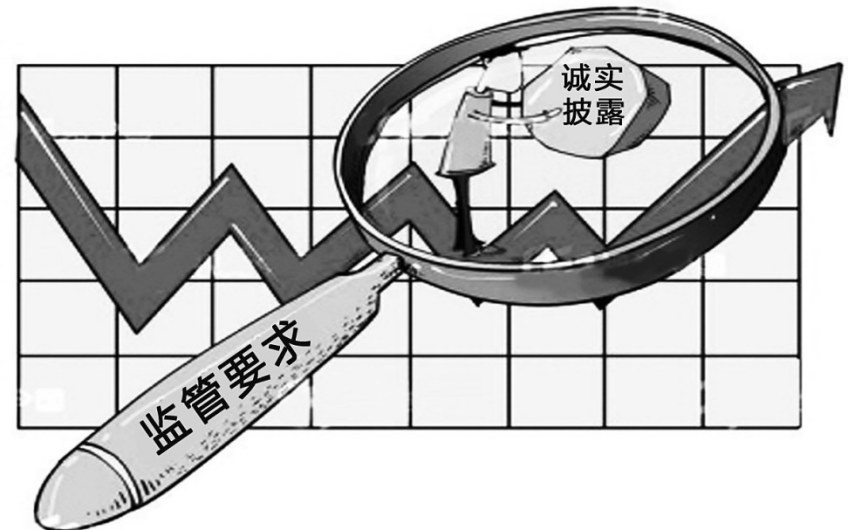
- The Chinese government seeks to lower drug prices –
 - Retail prices;
 - Bidding prices
- The NDRC will work to reduce the prices of drugs on the original reimbursement-drug list
- The NDRC will be stricter about granting a price premium to off-patent drugs in general

The actual tendering process has become more intense, and decisions are increasingly based on price



2. Increase Emphasis on Corporate Compliance

- The government will continue to audit and monitor the industry
- Both MNCs and local companies will have to pay more attention to the ways they approach the market



3. Pharmaceuticals to be definitely one of antitrust hotspots

- NDRC has launched a review into potential anti-competitive behavior across 80 major industries, including pharmaceuticals
- A health care company has become the latest global firm accused of setting minimum prices for surgical sutures in China after a court ordered it was guilty of "vertical monopoly".



Impacts on Pricing and Procurement

III. How to React When Facing the Change & Challenge

How to React When Facing the Change

Highlights risky practices

- Marketing events involving travel agency will be paid highly attention from government authorities;
- Third party intermediary (“**TPI**”) is no longer a fire wall;
- Bad execution ruins good policy. Do not lose control to your operational level;
- Always keep an eye on the events cost and financial figures. Be careful to the exaggeration in it.



How to React When Facing the Changing

Highlights risks practices

NO! Sponsorship for conferences abroad

NO! Rebates

NO! Red Envelope

YES! Due Diligence

YES! Book and Record



THANK YOU



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