

**DAIRY CONTAMINATION SCARE**

# Foreign firms scapegoats in China probes

AFP, Beijing

A host of foreign pharmaceutical and baby formula firms have been investigated by Chinese regulators in recent weeks, but analysts say they have become convenient scapegoats for consumer anger over high prices and safety scares.

The domestic companies that are the main culprits behind a string of scandals surrounding the giant and lucrative markets are either state-owned or too well connected to take on, they say.

"They go after high-profile foreign companies because it's easier to target them," Shaun Rein, managing director of China Market Research Group in Shanghai, told AFP.

The most widely publicised inquiry is a bribery probe into British firm GlaxoSmithKline (GSK) that has seen at least 20 people arrested since the beginning of July.

France's Sanofi is also being investigated over reports it bribed more than 500 doctors, according to state media, while the list of foreign firms involved in a pricing probe -- of both domestic and foreign companies -- reads like a global who's who of Big Pharma.

They include units or joint ventures of Germany's Merck and Boehringer Ingelheim, Novartis of Switzerland, and Baxter of the US.

Denmark's Novo Nordisk, the world's biggest insulin maker, has also been visited by officials following the GSK corruption inquiry, it said last week.

Last week China fined six manufacturers of baby formula more than \$100 million for price-fixing, among them New Zealand's Fonterra -- the world's biggest dairy company and the subject of a botulism health scare earlier this month.

Others hit with penalties were Mead Johnson and Abbott from the US; Dumex, a subsidiary of France's Danone; a China arm of Royal FrieslandCampina of the Netherlands; and China's Biostime.

The clampdowns are partly a response to public frustration over high prices for foreign



A box of Dumex baby formula being returned to a supermarket in Wuhan in central China's Hubei province after the Fonterra milk botulism scare broke out.

goods, which Chinese consumers flock to as they often distrust local produce, Rein said.

"First of all, they target sectors," he said. "In the pharmaceutical sector and baby formula sector, prices have been too high for many years."

But the authorities have shown themselves reluctant to take on domestic companies, whose reputations have been savaged by repeated scandals such as the melamine milk powder contamination of 2008, which killed six babies and sickened 300,000.

The demand for foreign formula in particular is so high that a vast network of informal importers has emerged, whose purchases have stripped shop shelves bare from Britain to Australia and sometimes forced retailers to impose restrictions on sales.

Despite the market reforms of recent

decades, which have propelled its huge economic growth, the government still owns many major Chinese companies, or significant stakes in them.

Even in the private sector, firms often have close links with government officials at both national and local levels.

"It's much riskier to go after a Chinese company -- especially if it is a state-owned company, it could have significant power and it is well-connected," said Patrick Chovanec, chief strategist with Silvercrest Asset Management.

But he said that by targeting foreign firms for price-fixing, authorities are chasing the wrong culprit and failing to address the safety scandals that are the core problem driving consumer concerns.

"The Chinese expression is 'you kill the

chicken to scare the monkey', but the problem is that monkeys are not chickens, and here it's not sure the monkeys are scared," he said.

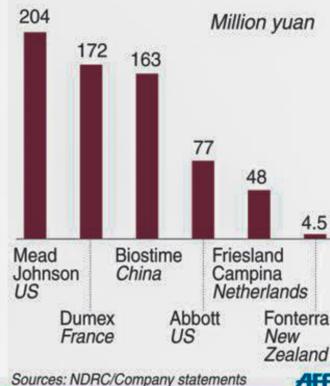
"If you're a Chinese company and you see this, you know there are reasons why it's harder to go after Chinese companies, and you could also actually benefit from the crackdown on foreign companies."

In the case of the accusations GSK faces -- making illicit payments to doctors, hospitals and managers to boost sales -- he added: "The worst offenders are certainly Chinese companies."

Criticisms of the price of imported baby milk, which sometimes costs twice as much as in its home market, are not without justification, said John Gong, associate professor at the University of International Business and Economics in Beijing.

## Firms fined by China for price-fixing

Five foreign firms, one domestic baby formula company were fined last week in China



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## Fonterra executive resigns after milk scare

AFP, Wellington

A top executive at dairy giant Fonterra resigned Wednesday following a botulism milk scare that sparked global recalls and tainted the New Zealand food industry's "clean, green" image.

Fonterra's managing director of NZ Milk Products Gary Romano has quit, effective immediately, the company said in a brief statement.

Fonterra did not provide a reason for Romano's departure, with chief executive Theo Spierings saying only: "Gary has made a significant contribution during his time at Fonterra and we respect his decision."

Romano and Spierings were the public faces of the company as it tried to deal with the fallout in key markets such as China of recalls of Fonterra-related products over concerns they could be tainted with a bacteria that can cause potentially fatal botulism.

While no infants fell sick, Fonterra was accused of mishandling the crisis by releasing information too slowly and then giving out incomplete data when it did finally go public.

Officials from Prime Minister John Key down have made no secret they are unhappy with how Fonterra dealt with a crisis that threatens New Zealand's dairy industry, which is responsible for 25 percent of the country's exports.

Key has said he will visit Beijing later this year to personally apologise to Chinese customers, who buy about NZ\$3.0 billion (\$2.4 billion) of New Zealand baby formula a year.

The government has launched an investigation into the crisis, which has been blamed on a dirty pipe at a North island processing plant, while Fonterra is carrying out its own inquiry.

Critics have accused it of failing to learn the lessons of a 2008 scandal, when six children died and 300,000 fell ill after a Chinese company it part-owned illegally laced milk with the chemical melamine.

## Germans open wallets, firing up economy again



German Chancellor Angela Merkel (R) speaks with foreign minister Guido Westerwelle (L), and interior minister Hans-Peter Friedrich (C) at the start of the weekly cabinet meeting at the Chancellery in Berlin yesterday.

REUTERS, Berlin

THE German economy grew at its strongest rate in more than a year in the second quarter, beating forecasts thanks to demand among both consumers and businesses.

The economy expanded by 0.7 percent, seasonally-adjusted preliminary figures showed on Wednesday. It was more than the median forecast in a Reuters poll of economists for expansion of 0.6 percent and was the biggest quarterly rise since the first quarter of 2012. Germany only narrowly avoided recession earlier this year.

The better-than-expected figure, released five weeks before a federal election, will be welcome news for Chancellor Angela Merkel who is seeking a third term in the vote on Sept. 22. Her government expects growth of 0.5 percent this year.

"The euro zone has been hauled out of recession and Germany has done the lion's share of that," said Andreas Scheuerle, an economist at Dekabank.

Separate data showed the euro zone as a whole growing at 0.3 percent in the quarter, ending the bloc's longest contraction. It began in late 2011.

"The economic upturn is continuing. There is every reason for people in Germany to look to the future with optimism. We have overcome the weak phase of the winter half-year 2012/2013 excellently," German Economy Minister Philipp Roesler said.

While Europe's economic powerhouse steamed ahead during the early years of the euro zone crisis, it slowed last year and even contracted in the fourth quarter as exports

languished and investment was sluggish. But investments picked up significantly between April and June, largely due to weather-related catch-up effects after an unusually long and cold winter, while net exports also made a positive contribution to growth, the Statistics Office said.

Investments in machines and equipment - an indicator of future economic growth - rose for the first time in around 1-1/2 years, the Office said.

Economists warned that weak investments remained a challenge for the economy. German firms have also been downbeat about export prospects during the current earnings season. Synthetic rubber maker Lanxess, for example, warned of fragile sentiment in markets like China and Brazil as well as Europe.

Corporate results have been a mixed bag. Of Germany's 30 biggest companies, just over a third reported second-quarter financial results that missed analyst expectations, while fewer than a third beat consensus.

The Statistics Office revised downwards the figure for the first quarter of 2013 to show stagnation of 0.0 percent. It had originally reported an expansion of 0.1 percent.

The Economy Ministry, the Bundesbank and economists have all said growth will likely be more moderate in the second half given that bumper Q2 growth was partly due to catch-up effects and Germany still faces a tough international environment.

On Wednesday the BDI federal industry association cut its forecast for German 2013 growth to 0.5 percent from its January estimate of 0.8 percent, saying the export-oriented economy could not decouple from a global slowdown.

## India inflation accelerates sharply in July

AFP, New Delhi

INDIA'S inflation accelerated sharply to close to six percent in July as a weak rupee pushed up import costs, data showed Wednesday, deepening worries about the slowing economy.

The Wholesale Price Index, India's closest-watched cost-of-living gauge, rose to 5.79 percent from a year earlier, up nearly a percentage point from 4.86 percent the previous month.

The July reading far outstripped market forecasts of a five percent year-on-year rise.

The increase was driven by higher fuel imports and other costs after India's rupee hit new lifetime lows against the dollar in the past month.

Politically sensitive food prices climbed by 9.74 percent in June while the cost of onions -- a staple in every Indian diet -- soared by 145 percent on an annual basis, according to the commerce ministry data.

The government has been desperate to tame inflation -- especially of food -- and revive the economy as it seeks a third term with elections due by May 2014.

But the weak rupee and accelerating prices after months of slower inflation has curbed the central bank's room to cut rates to stimulate an economy growing at five percent, its slowest pace in a decade. Crop damage from heavy monsoon rains also drove up prices in July.

The central bank cut rates three times in 2013 following an aggressive hiking spree but



People hold garlands of onions and green chillies around portraits of India's Prime Minister Manmohan Singh (L) and chief of India's ruling Congress party Sonia Gandhi during a protest against a price hike in onions, at Allahabad in India yesterday.

has been forced to tighten monetary policy to try to stem the rupee's fall.

Economists say further rate cuts could lead to an even weaker rupee, push up import costs more and widen India's gaping current account deficit -- the broadest measure of trade -- which

the bank calls the "biggest risk" to the economy. Meanwhile, the currency fell by more than a third of a rupee to 61.50 rupees to the dollar in daytime trade despite steps announced by the government earlier this week to try to narrow the current account deficit and arrest the unit's fall.

## Cathay Pacific swings to first-half net profit

AFP, Hong Kong

HONG Kong flag carrier Cathay Pacific said Wednesday it swung to a first-half lower than expected net profit of HK\$24 million (\$3.1 million), with passenger gains offset by persistently high fuel prices and falling cargo revenue.

The profit for the six months ending June 30 represents a huge upswing, coming after the blue-chip Asian airline suffered a first-half net loss of HK\$935 million a year earlier.

But it fell short of the average HK\$721 million forecast by seven analysts in a poll by Dow Jones Newswires.

Revenue slipped 0.6 percent to HK\$48.58 billion, while passenger

numbers increased 1.3 percent to 14.50 million.

Company chairman Christopher Pratt said fuel costs decreased 8.5 percent compared to the same period last year but remained expensive, accounting for 39 percent of total operating costs.

"We continued to operate in a challenging business environment in the first half of 2013, though there was improvement in our passenger business," he said in a statement.

"Our cargo business has been affected by weak demand for more than two years, which is unprecedented."

"The persistently high price of jet fuel continued to affect our business adversely."

The Hong Kong flag carrier said

it had helped combat high fuel prices by withdrawing older planes and operating more long-haul services using fuel-efficient Boeing 777-300ER aircraft.

Cathay, which also owns Dragon Airlines Ltd, said cargo revenue for the first half of 2013 was down by 5.2 percent to HK\$11.3 billion compared to the same period in 2012.

Daniel Tsang, an analyst at Hong Kong-based aviation consultancy Aspire Aviation, said there had already been several false dawns indicating a recovery.

"Cathay can only be said to be out of the woods when this cargo conundrum ends. But there have already been several false dawns," he said in an email to AFP.

The airline faced a difficult year

in 2012 when profit plunged more than 83 percent to HK\$916 million, buffeted by high fuel prices and the global financial crisis.

Pratt said despite the difficult conditions there had been improvements, which "mainly reflected stronger passenger business and cost reductions".

"Our financial position remains strong. We will continue to invest to make our business stronger," he said.

But he added: "The business outlook for the rest of 2013 remains unclear."

Cathay said it had taken delivery of six new aircraft in the first six months of 2013, including two Airbus A330-300, three Boeing 777-300ER and one Boeing 747-8F freighter.