A health worker checks a blood sample for malaria in the only hospital in Pailin in western Cambodia.
REUTERS/DAMIR SAGOLJ

A closer look at Healthcare

The world's largest and most expensive healthcare system is on the verge of an historic transformation. President Barack Obama's healthcare law takes full effect next year, bringing greater scrutiny on the methods and cost of medical services and expanding coverage to millions more Americans. The reform is already bringing fundamental change to the way regulators, health insurers, drug manufacturers, device makers, hospitals and doctors operate. But it remains to be seen whether the massive effort will bring about better quality and more affordable care to consumers, and at what cost to businesses. The future of healthcare was a prime focus of Reuters Health Summit on May 6-8 in New York. Leading industry executives and policymakers met with Reuters reporters for exclusive interviews.

Budget cuts hit healthcare from flu watch to hospitals

BY DAVID MORGAN
NEW YORK, MAY 7, 2013

America's budget cuts may be beginning to take a toll on the public health system, from efforts to track global flu outbreaks to policing a surge in food and drug imports.

Participants at the Reuters Health Summit in New York this week spoke to the immediate impact of $85 billion in automatic government-wide budget cuts that began on March 1. This so-called sequestration was set in motion when Congress failed to reach a deal to reduce the nation's budget deficit.

The budget of the U.S. Centers for Disease Control and Prevention has been cut by $300 million as it monitors a deadly new strain of bird flu in Asia.

CDC Director Thomas Frieden expressed concern that the loss of the funding will hamper the agency's ability to track outbreaks worldwide that could lead to a new pandemic. It would also affect the help that the CDC provides local authorities to identify and contain sickness at home.

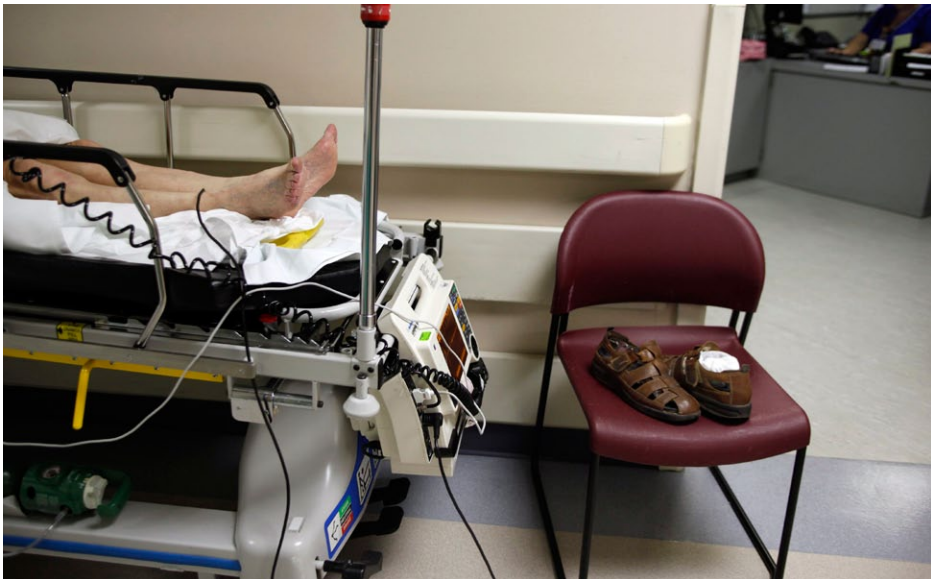
"It would limit our ability to track flu in countries around China," Frieden said.

U.S. state and local health departments have cut 45,000 job cuts in recent years, making the system more vulnerable than it was in the 2009 swine flu pandemic, Frieden said.

"That'll be thousands fewer staff to detect and respond to threats," he said. "We often provide a significant portion of their budget for things like tracking," he added. "Any weak spot is potentially a weak spot everywhere."

The new strain of bird flu, known as H7N9, has so far sickened at least 129 people and killed 31 since it surfaced in February. According to the latest CDC estimates, the flu kills about 20 percent of the people it infects.

The current strain cannot cause a pandemic because it is not spread from person to person, but the concern remains that it could mutate into something far more contagious.



A patient waits in the hallway for a room to open up inside the emergency room at a hospital in Houston, Texas July 27, 2009. **REUTERS/JESSICA RINALDI**

'EVEN MORE WITH LESS'

Budget cuts are also inhibiting the Food and Drug Administration's ability to hire the staff it needs to enforce new safety regulations and police surging imports of regulated products from U.S. trading partners including China.

"The pressures we're under are enormous," said FDA Commissioner Margaret Hamburg, another Summit speaker. "What it boils down to is that we're in a situation where an agency that has already been stretched pretty thin is now having to find ways to do even more with less in the context of a lot of added responsibilities."

As a result, agency staff are doing multiple jobs at once: "The experts who are doing our guidance and developing our regs are often the same experts that are doing the product reviews and committing to more engagement and more frequent meetings and organizing and running and analyzing the findings from advisory committees."

Hamburg says FDA has been hit by a funding loss of nearly $300 million in funding, not only from the federal budget but also from reduced user fees that private sector companies pay to cover the costs of reviewing new medicines. It comes as FDA is

Text continues next page

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charged with new food safety responsibilities and seeks additional oversight powers over compounding pharmacies in response to a deadly drug-related meningitis outbreak.

Hamburg said the FDA is trying to avoid reductions in food inspections and staff furloughs by cutting budgets for travel and conferences, postponing new hiring and limiting contracts for information technology and scientific research.

A longer term problem may be a diminished FDA ability to attract talented staff, she said.

"Among the many things that are making jobs in public service less attractive, is the current budget environment," she said.

MEDICARE CUT HITS HOSPITALS

The sequester includes a 2 percent across-the-board funding cut to the Medicare health plan for the elderly, costing hospitals and doctors billions of dollars in revenue.

Tenet Healthcare Corp, a Dallas-based hospital chain, says it will absorb $50 million in Medicare cuts this year due to sequestration rather than cut back on programs or turn away patients.

"Basically, we'll just end up this year having $50 million less of income than we otherwise would have had," Tenet Chief Executive Trevor Fetter said.

The sequester is due to cut $85 billion in federal spending through September 30 and a total of $1.2 trillion over 10 years unless halted. Congress is being besieged by requests for targeted relief for government agencies and private organizations, including cancer clinics, and has already made an exception for air traffic controllers to prevent flight delays.

But the U.S. Department of Health and Human Services, which oversees everything from flu shots to school nutrition, has shown no sign so far of asking Congress to allow it to shift funds within its budget to better manage the cutbacks.

"Program managers are working with grantees and partners to manage the impact of the sequester, and trying to minimize the impact wherever feasible. These conversations and reviews are ongoing and will continue through the fiscal year and into next year," said an HHS official who spoke on condition of anonymity.

On Wall Street, the sequester has had little direct impact so far on the investment market for healthcare companies. But as the latest uncertainty to hang over healthcare since the beginning of debate on President Barack Obama's Affordable Care Act in 2009, it has caused second thoughts among some dealmakers on Wall Street.

"If you have very big picture strategy discussions with big companies, (drugmaker) CEOs, overall there's still uncertainty in CEOs' mindsets; there's still uncertainty in the boardroom," said Henry Gosebruch, managing director of healthcare M&A at JPMorgan Chase.

"It's just creating an environment where historically it's been fine to wait if you want to do that big M&A deal. You just wait it out," he said. "Uncertainty is the enemy of deals."

Reporting by David Morgan; Editing by Michele Gershberg and Steve Orlofsky

FDA to consider revamping food additive rules

BY TONI CLARKE
NEW YORK, MAY 6, 2013

Amid growing public concern over the safety of additives in products ranging from caffeinated energy drinks to industrial chemicals in food containers and water bottles, the U.S. Food and Drug Administration is under pressure to reexamine its rules, and there are signs it may do so.

It has been more than half a century since U.S. regulations governing food additives were last revised. In that time, the number of chemicals in the food supply has risen from fewer than 2,000 to an estimated 10,000, many of which are never reviewed by the FDA because companies and their advisers have declared them to be safe.

Under loose regulations created more than 50 years ago to help companies avoid lengthy delays in getting food additives approved, the FDA created a list of products considered "generally recognized as safe" (GRAS).

Companies can either petition to get their ingredients affirmed safe by the FDA, or they can declare them safe based on their own research or that of hired consultants. The FDA has the option to challenge such declarations but has rarely done so.

"Our system really puts the onus on us to prove harm," FDA Commissioner Margaret Hamburg said at the Reuters Health Summit in New York. "It's perhaps a time to look at what the legal framework looks like and what opportunities there are now to ask and answer questions in new ways because of advances in science and technology."

"We are an agency with a wonderful history, but many of our laws are rooted in a different historical era," Hamburg said. "An important question to ask is, would this be a good time to look at this issue again?"

According to research by the Pew Charitable Trusts' food additives project, which is conducting a three-year investigation into food additive regulation, 1,000 chemicals have been self-affirmed by industry as GRAS without notice to the FDA.

Another 2,000 chemicals have been declared GRAS by the Flavor and Extracts Manufacturers Association, which submits information to the FDA, though the FDA does not review it, according to Pew, bringing to about 3,000 the number of chemicals in the food supply never reviewed by the FDA.

Caffeine, when contained in cola-type drinks, was declared decades ago to be a GRAS product in cola-type beverages. Yet the agency has not challenged companies to prove the safety of caffeine in other products or other beverages - including those whose levels exceed the 71 milligrams per 12 ounces typically contained in soda.

One 8.4 fluid ounce can of Red Bull Energy Drink contains 80 milligrams of caffeine, according to its website. Twelve ounces of Red Bull contain 114 milligrams of caffeine.

Last year Democratic Senators Dick Durbin of Illinois and Richard Blumenthal of Connecticut called on the FDA to respond to concerns about the effect on children of caffeine in energy drinks.

Between January 2004 and October 2012, the FDA identified 21 reports of heart rate abnormalities, vomiting, convulsions and other medical problems, some life-threatening, in people who had drunk Red Bull. But Hamburg said the events are not sufficient to warrant regulatory action "at the present time."

"There is not a clear linkage of exposure to caffeine and the adverse events reported," she said, adding that the agency will continue to monitor energy drinks and that further examination of the underlying science "may merit action going forward."

Reporting By Toni Clarke in New York; Editing by Steve Orlofsky

Faster drug approvals a tonic for pharma industry

BY BEN HIRSCHLER
NEW YORK, MAY 8, 2013

A pickup in new drug approvals, the promise of faster regulatory decisions and more targeted medicines have quickened the pulse of the pharmaceutical industry as a big wave of patent expiries recedes.

Manufacturers are producing more targeted medicines, designed to treat very specific groups of patients, thanks to a new understanding of the genetic basis of many diseases - most notably cancer.

"It's a very exciting time in terms of advances in science and technology," Margaret Hamburg, head of the Food and Drug Administration (FDA), told the Reuters Health Summit this week.

"That's reflected in products that are really targeted to the underlying mechanism of disease and really make a difference. That also means the development time and review time is getting shortened because when a drug works, our job is easy."

After approvals last year from the FDA for 39 novel medicines - a record only beaten in 1996 - the healthy pace has continued into 2013.

So far this year, the U.S. watchdog has cleared nine so-called new molecular entities, compared with 11 at the same stage last year, while the European Medicines Agency (EMA) has recommended 13 new drugs against eight a year ago.

And drugmakers are getting further help from a new FDA program to accelerate life-saving therapies designated as a "breakthrough," opening to door to earlier approval based on quicker studies, where clinical data is compelling.

The EMA also has a scheme to allow conditional approval based on good interim clinical trial results.

Hamburg said the system would make a "real difference" by increasing dialogue between industry and the FDA, adding that experience over the past two years showed the approval process was 3-5 years faster when there was early consultation.

CLASS OF 2013

This year's haul of new drugs includes several that analysts see as major sellers, like Biogen Idec Inc's multiple sclerosis pill Tecfidera; the first of a new class of diabetes drugs called Invokana from Johnson & Johnson; and a new type of "armed antibody" from Roche Holding AG that delivers a toxin directly to breast cancer cells.

Still, more than a quarter of 2012's new drugs were niche products for rare diseases - a far cry from the one-size-fits-all blockbusters that drugmakers traditionally banked on.

The shift means the value added to companies' portfolios is not as great as the headline numbers might suggest.

Credit ratings agency Moody's said last month that drugs in late-stage tests or just launched represented, on average, 18.5 percent of big drug firms' existing sales, up from 14.9 percent two years ago, but still down from the 20.8 percent seen in 2005.

Getting a decent return on research dollars remains tough and the industry as a whole has been curbing its spending, with many companies nowadays opting to give cash back to shareholders that might have been spent in the lab.

"The output is not improving enough to warrant current investment - and that is a worry," Lars Sorensen, the chief executive of Danish drugmaker Novo Nordisk, told the summit meeting.

Fred Hassan, former CEO of drugmakers Schering-Plough Corp and Pharmacia, now a partner at private equity firm Warburg Pincus, said the industry still needed to do better, although the situation was "slowly turning."

"Twelve years ago about half the value of the stock price was in the pipeline ... (today) it could be 20 percent," he told Reuters.

SECTOR RE-RATING

Inevitably, not everything has gone smoothly when it comes to getting new medicines approved by regulators. There have been surprise setbacks this year for Novo Nordisk's new insulin Tresiba in the United States and Pfizer Inc's new rheumatoid arthritis pill Xeljanz in Europe.

Overall, however, investors are showing renewed confidence in a sector that was long shunned - especially now the worst of patent expiries that have savaged sales of past top-sellers like Pfizer's cholesterol drug Lipitor are in the rearview mirror.

As result, drug companies, on average, trade at nearly 15 times expected earnings, against a low point of under 10 in 2010, though still very far from the peak of more than 30 back in 1999.

The improvement in research productivity has not been universal. Some companies, such as AstraZeneca Plc, are still struggling to get new drugs out the door.

Those on a hot streak include Pfizer, Bristol-Myers Squibb Co, GSK, Novartis AG, Roche and Eli Lilly & Co - the last of which now has more drugs in late-stage testing than at any one time in its history.

Additional reporting by Bill Berkrot and Ransdell Pierson; Editing by Phil Berlowitz

Biotech firms evolve from targets to acquirers

BY JESSICA TOONKEL
NEW YORK, MAY 8, 2013

Biotechnology companies that just a short time ago were viewed as takeover targets are now more likely to be buyers themselves after seeing their valuations soar on promising new drugs.

The stock valuations of companies like Regeneron Pharmaceuticals Inc, Gilead Sciences Inc, Celgene Corp and Biogen Idec Inc have skyrocketed in the past year or two alone, making it difficult for large pharmaceutical companies to buy them and leaving a trail of dead deals.

"For a pharmaceutical company to make an acquisition at this point paying double or triple what it could have paid a year or two ago ... I think that has killed a lot of transactions that we have seen where discussions either started or pharma thought about approaching or maybe even did approach," said Henry Gosebruch, managing director of healthcare M&A at JPMorgan Chase. He spoke at the Reuters Health Summit in New York.

In some cases, a major drugmaker will identify a biotechnology target and watch it for years to determine the right time to make an offer. It may have balked at paying a high premium early on, and by the time it is ready to do a deal, the biotech company has become even more expensive, Gosebruch said.

"I could think about four or five of those stories," he said.

For example, shares of Regeneron have risen more than 50 percent year-to-date, to the $260 range, on spectacular sales of its Eylea treatment for macular degeneration, the leading cause of blindness in the elderly.

Biotech stock valuations are skyrocketing even on the release of positive data around a drug. Biogen Idec's stock has more than quadrupled over the past four years over promising data surrounding its Tecfidera drug for multiple sclerosis, which was approved just this year.

Henry Gosebruch, managing director of healthcare mergers and acquisitions for JPMorgan Chase & Co. **REUTERS/SHANNON STAPLETON**

With interest rates low and financing easily available, biotechnology companies realize they do not need to be bought in order to bankroll their clinical trials and marketing efforts, said Ercument Tokat, a partner and healthcare banker at New York-based investment bank Centerview Partners.

"In the last few years what has changed quite dramatically is that mid-cap and large-cap biotechs have turned into acquirers," Tokat said. "Most of the time in the past, if you were single-product biotech with a phase 3 drug, you were really waiting to be bought."

Biotech investors have also reacted positively when companies announced acquisitions, emboldening more industry CEOs to grow through M&A, bankers said.

For example, Gilead paid about $11 billion in 2011 to acquire Pharmasset for its experimental Hepatitis C drug. Since that acquisition, Gilead's stock has jumped more than 185 percent and is trading slightly above $53.

Similarly, since buying Abraxis BioScience for its breast cancer drug Abraxane in June 2010, Celgene has seen its stock almost triple in value. It currently trades around $122 per share.

"On the pharma side, it is a trickier question because a lot of Big Pharma investors are there for the dividend or buyback, there for the value, they're there for steady cash flow and may be less willing to support risky transactions," Gosebruch said.

The rich valuations of biotechnology companies are not just staving off potential acquirers, but also activist investors who in the past have sought to shake up the operations of underperforming companies and attract takeovers by Big Pharma.

"These stocks have doubled or tripled ... it is hard to make the case they've been underperforming," Tokat said.

Healthcare bankers expect a continued flow of smaller deals for both publicly traded and privately held drugmakers in the $1 billion to $5 billion range.

"There are hundreds of private companies that could be good targets for big pharma," Gosebruch said.

Pharmaceutical companies, which have survived the worst of the patent cliffs and spent the last few years on cutting costs, are now looking externally for growth, but the days of huge pharma mergers are unlikely to make a comeback in the near future, bankers said.

"The stars are not fully aligned," Gosebruch said. "The overall confidence in the world is improving but it's got a long way to go. The combination of valuations and a little bit of uncertainty are holding things back."

Additional reporting by Bill Berkrot and Ransdell Pierson in New York, editing by Soyoung Kim, Michele Gershberg and Matthew Lewis

Drug industry CEOs plotting more carve-outs

BY BEN HIRSCHLER
NEW YORK, MAY 8, 2013

A new generation of drug industry chief executives is stepping up plans to restructure their businesses by divesting slower-growing and maturing operations, opening up new opportunities for deal-makers.

Bankers speaking at the Reuters Health Summit said the success of transactions such as Pfizer Inc's divestitures of noncore assets and Abbott Laboratories splitting off its innovative drugs into AbbVie Inc had fuelled a wider rethink across the industry.

"The mindset has changed with a new generation of CEOs ... investors love the fact that they are thinking creatively, thinking shareholder-friendly" said Ercument Tokat, partner at investment banking and advisory firm Centerview Partners.

"In the past, there was a lot of revenue protection. Now the focus is more about keeping the profitable revenue, keeping the growing revenue."

The new attitude is reflected in a willingness to consider whether other companies may be better owners for certain assets, thereby unlocking value for shareholders.

Much attention is focused on Pfizer, the world's largest drugmaker, which has already spun out its animal health operations into Zoetis Inc, sold its infant nutrition business to Nestle and has set up a unit for older off-patent drugs that could, in theory, be sold in future.

Ercument Tokat, a partner at Centerview Partners and one of the founding members of the firm's healthcare practice. **REUTERS/SHANNON STAPLETON**

But Pfizer Chief Executive Ian Read is not the only one contemplating a smarter and leaner corporate structure.

Britain's GlaxoSmithKline Plc last month also announced plans to bundle many of its established drugs into a new unit in a move that CEO Andrew Witty said would give it "optionality" on a potential future spin-off.

Chris Viehbacher, the CEO of French drugmaker Sanofi SA, is considering similar strategic options for the company's portfolio of older drugs, although no decisions have yet been taken, he told investors in a conference call last Thursday.

'LOT MORE TO COME'

Chris Gordon, managing director of healthcare at private equity group Bain Capital, told the summit meeting in New York that the trend toward carve-outs and divestitures was still in its infancy.

"We're in the very early innings of it ... I think you'll see a lot more to come," he said.

"For most of the history of the life sciences and pharma sector, they've been pretty reticent about selling off pieces or, frankly, walking away from revenue - now there is more creativity around portfolio management."

And the trend is not confined only to drugmakers. Bain, for example, agreed to buy Medtronic Inc's external defibrillator business, Physio-Control, for $487 million in 2011.

For bankers focused on mergers and acquisitions (M&A), the industry's restructuring offers a rich seam of business, since units slated for divestment often have hundreds of millions or billions of dollars in annual sales.

GSK is currently seeking a buyer for its Lucozade and Ribena soft drinks brands in an auction that analysts expect to generate more than 1 billion pounds ($1.6 billion).

Johnson & Johnson, meanwhile, arguably the ultimate healthcare conglomerate, is considering selling its diagnostics business or turning it into a stand-alone company.

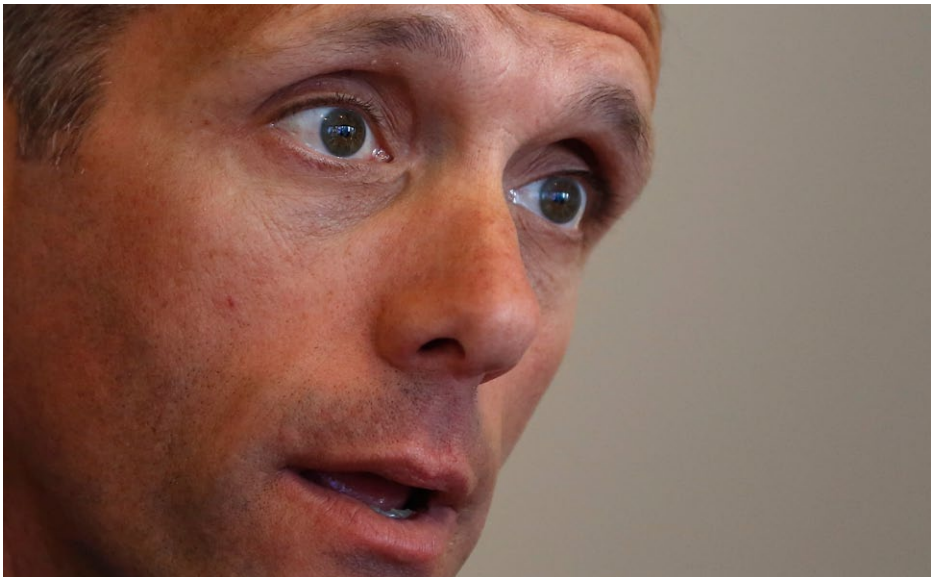
Not all the reviews will result in outright sales or spin-offs, however. Henry Gosebruch, managing director of healthcare M&A at JPMorgan Chase, believes industry leaders will also consider striking more joint ventures within certain therapy areas, such as the ViiV alliance created by GSK and Pfizer in HIV in 2009.

"The times when Big Pharma wanted to be everything to everybody, they just aren't there anymore," he said.

Additional reporting by Jessica Toonkel and Soyoung Kim in New York; editing by Matthew Lewis

Cigna plans to sell health insurance on five public exchanges

BY CAROLINE HUMER
NEW YORK, MAY 6, 2013



David Cordani, Chief Executive Officer and President of CIGNA Corp., speaks during the 2013 Reuters Health Summit in New York, May 6, 2013. **REUTERS/SHANNON STAPLETON**

Cigna Corp plans to sell insurance in five public health exchanges in 2014 as part of President Barack Obama's healthcare reform, its top executive said on Monday.

The company will offer health plans to about a dozen metropolitan regions in Texas, Florida, Tennessee, Arizona and Colorado, Chief Executive David Cordani said in an interview on Monday.

Under the Affordable Care Act, all states are due to begin selling healthcare to individuals through online marketplaces, with enrollment opening on October 1, 2013. Most insurers have said that they plan to participate in these exchanges in their existing markets.

Cigna, the No. 5 U.S. health insurer, had previously indicated that it planned to expand its business to sell on a limited number of exchanges in 2014 but had not given details. Most of Cigna's health insurance business in the United States is administering benefits for corporations.

"We do not believe this is going to be a massive either top-line or bottom-line driver for the corporation. We think this is just a step forward for us," Cordani said.

Cigna, which reported a better-than-expected first-quarter profit last week, sells health, life, disability and accident insurance and offers private Medicare plans for seniors and government Medicaid for the poor.

The deadline for applications to sell insurance in the 33 states that have chosen to have the federal government run the exchanges closed on May 3 after being extended a few days. Applications in many of the 17 states that are operating their own exchanges, such as Colorado, were due last month.

Texas, Tennessee, Florida and Arizona, where Cigna will offer plans, all defaulted to the federal exchange model.

With open enrollment due to start October 1, reform advocates have begun to worry about enrollment and how effectively federal and state officials can recruit consumers, particularly the young and healthy, from among America's 49 million uninsured.

Official estimates anticipate about 7 million people will obtain private insurance through the exchanges in 2014 and that many will qualify for federal subsidies to help pay premiums.

The success of the exchanges will depend not necessarily on hitting the government target enrollment numbers, but on whether customers who use them can access doctors and like the insurance products, Cordani said.

But there are still many unknown factors, such as the details of the products on the exchanges and how affordable they will be, and Cigna has not set market share targets for 2016, he said.

"You're going to have a meaningful market there if the exchanges are operating as designed over the long term," he said.

Additional reporting by David Morgan; Editing by Alden Bentley and Phil Berlowitz

Medtronic blood pressure device slow to enter Europe

BY SUSAN KELLY
NEW YORK, MAY 8, 2013

Medtronic Chairman and Chief Executive Omar Ishrak speaks at the Reuters Health Summit in New York May 7, 2013. **REUTERS/BRENDAN MCDERMID**

A novel device by Medtronic Inc to relieve high blood pressure faces an uphill battle in Europe, where cash-strapped government health plans are reluctant to pay for an innovation they do not understand well, the company's chief executive said.

Launched in April 2010, the therapy, called renal denervation, has proved effective in reducing high blood pressure by deadening nerves in the kidneys. It is intended for patients who do not respond to traditional hypertension medications.

Reimbursement for the product, however, has been hard to come by, which has limited its adoption in Europe, Medtronic CEO Omar Ishrak said at the Reuters Health Summit in New York on Tuesday.

"You've got something that really works and it doesn't have side effects, and in mass, the experts are truly excited about this," Ishrak said.

"Part of the issue is that it is such a new technology that it is not a conventional plug into the healthcare system. We don't have reach and access to the general practitioners," Ishrak said.

The device, which Ishrak called a "game changer," is still two to three years from gaining approval in the United States. U.S. reimbursement coverage is likely to be determined at the same time the technology gets the green light from regulators, he said.

Millions of people have hypertension that is resistant to drug therapy, putting them at risk for heart attacks and stroke.

That has encouraged several medical technology companies to invest in device-based high blood pressure treatments, which industry analysts believe will eventually develop into a multibillion-dollar market.

Other devices makers that have received approval to sell hypertension devices in Europe include St Jude Medical Inc, Covidien, ReCor Medical and Vessix Vascular.

The new devices work by creating tiny scars along nerves in the kidneys - organs that play a pivotal role in regulating blood pressure by sending signals to the brain that can cause blood vessels to constrict.

The scarring process is carried out by threading a catheter through the renal arteries from the groin. It deadens the nerves and decreases blood pressure.

Ishrak said that while it is taking some time to put reimbursement policies in place, he believes ultimately it will happen. To help make the case for wider adoption, Medtronic is conducting additional studies to demonstrate the value of the therapy in addressing a condition in patients who have no other options.

"This care pathway for managing the patient is still being created," he said. "The fundamental value is there. It's a matter of getting different administrators to decide how it fits."

Additional reporting by Julie Steenhuysen; Editing by Michele Gershberg and Bob Burgdorfer

WHO budget cuts worry bird flu watchers

BY BEN HIRSCHLER
NEW YORK, MAY6, 2013

A chicken is seen inside a cage on a truck from mainland China at a border checkpoint in Hong Kong April 11, 2013. **REUTERS/BOBBY YIP**

The World Health Organization's ability to police the new strain of bird flu that has killed 27 people in China is being jeopardized by budget cuts, according to a top U.S. official.

"One of the things that, frankly, concerns us is the ability of WHO to respond effectively," Dr. Thomas Frieden, director of the U.S. Centers for Disease Control and Prevention, told the Reuters Health Summit in New York on Monday.

Frieden said he planned to raise the issue with other countries at the World Health Assembly (WHA) meeting, which is being held in Geneva, where the U.N. agency has its headquarters, from May 20 to May 28.

Many scientific questions still have to be answered about the new flu strain, known as H7N9, which first caused patients to sicken in China in February having been previously unknown in humans.

So far, researchers have established it is being transmitted to people from birds - probably mostly chickens. There is no evidence of it spreading from person to person.

The WHO plays a central role in coordinating the global response to such emerging disease threats, but it is struggling in the face of budget cuts that were forced on it two years ago, partly as a result of a strong appreciation in the Swiss franc.

"They had trouble sending a team to China for H7 because they didn't have enough money to travel," Frieden said. "They are managing and we will help them manage - and will send staff there as needed - but the world needs them to be effective."

Taiwan reported its first case of H7N9 on April 24 and health experts say it is critical to monitor closely the new strain's potential to spread in neighboring countries.

Dr. Keiji Fukuda, the WHO's assistant director-general for health security, said the organization was carrying out the work that needed to be done but the operation, involving more than 50 staff, was "very expensive".

"We need the gas tank to be full if the car is going to move. We've already been working with donors in terms of response and funds for support," he said in a telephone interview in Geneva.

There will be a side event on H7N9 during the WHA meeting on May 21 where both Dr. Margaret Chan, WHO director-general, and he will speak, along with the Chinese health minister, Fukuda added.

The U.N. health agency, which helped eliminate smallpox in the late 1970s, coordinated worldwide efforts to deal with the H1N1 swine flu pandemic in 2009/10.

It receives the bulk of its funding in dollars, leaving it exposed to currency fluctuations. It was forced in 2011 to cut 300 jobs in Switzerland - or one in eight - because of the strength of the Swiss franc and financial problems in some donor countries.

"They've had to lay off hundreds of staff in Geneva and in other parts of the world, including in areas that are quite relevant to flu response," Frieden said.

Additional reporting by Stephanie Nebehay in Geneva; Editing by Carol Bishopric

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Graphic "Big Pharma's improving pulse": **http://link.reuters.com/hup77t**

Summit Speakers

Thomas Frieden
Director
US Centers for Disease Control and Prevention

David Cordani
CEO
Cigna Corp

Jeremy Levin
CEO
Teva

Margaret Hamburg
Commissioner
FDA

Ercument Tokat
Partner
Centerview Partners

Chris Gordon
MD & Head of Healthcare Group
Bain Capital

Henry Gosebruch
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