

GlaxoSmithKline Fits into Corruption Patterns in China Guardian UK Reports

GlaxoSmithKline's bribery scandal deepened on Monday when it said that some of its executives in China appeared to have broken the law.



Abbas Hussain, the drug maker's head of emerging markets who was sent to China by the company last week to respond to the crisis, said: "Certain senior executives of GSK China, who know our systems well, appear to have acted outside of our processes and controls which breaches Chinese law."

It followed a meeting with the country's ministry of public security, at which Hussain also said GSK would review its business model in the country.

GSK faces allegations of "economic crimes" involving senior executives accused of falsifying invoices and expenses and bribing third parties.

The ministry revealed last week that police were looking into deals worth around 3bn yuan (£320m).

Peter Humphrey, a British national specialising in fraud and corruption investigations in China, has been detained in Shanghai, reportedly as part of the probe. It is thought that GSK is one of his clients.

It emerged on Sunday that GSK has briefed criminal investigators from the Serious Fraud Office on its activities in China.

GSK's chief executive, Sir Andrew Witty, is likely to face tough questioning this week over the allegations, with GSK due to release interim results on Wednesday. He is expected to tell investors that the speed of GSK's growth in China made it hard for the company's compliance team to monitor all its agents there.

GSK's China crisis: questions that need answers

Sir Andrew Witty, chief executive of GlaxoSmithKline, will on Wednesday speak publicly for the first time about the cash and sexual bribery scandal that has led to the arrest of four of the company's senior Chinese executives.

Britain's biggest drug company has admitted some of its executives have broken the law, but has failed to explain who did it, what they did, when they did it or how long the company has known about it.

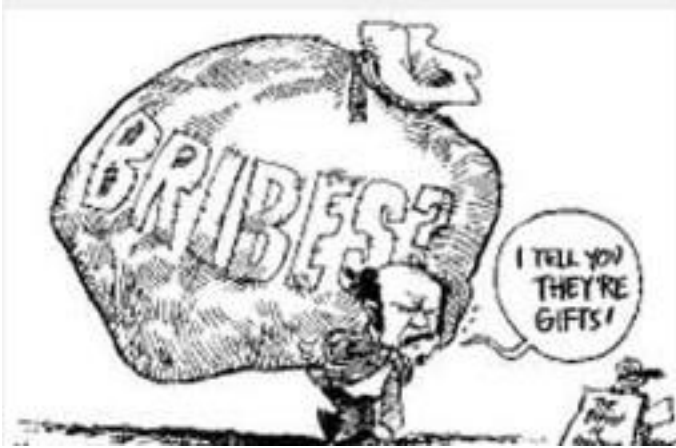
Here are eight questions that Witty – who was paid £3.9m last year – should answer when he speaks to the media on a conference call on Wednesday.

What have GSK staff actually done?

The Chinese authorities have accused GSK of acting like a criminal "godfather", using a network of 700 middlemen and travel agencies to bribe doctors with £320m cash and sexual favours in return for prescribing GSK drugs.

Gao Feng, head of China's fraud unit, said: "In order to win the favour of GSK, some travel agencies don't just offer money to their [clients], but also sexual bribes."

GSK has admitted only that "certain senior executives who know our systems well appear to have acted outside of our processes and controls which breaches Chinese law". But it has refused to explain exactly what they did or how the alleged bribery worked, despite one of the detained executives admitting to the charges on Chinese state television.



How long have GSK China executives been allegedly breaking the law?

Gao said the police have evidence that bribery has been a "core part" of GSK China's business model since 2007.

GSK said it was "deeply concerned and disappointed" by the allegations, but it has refused to say how long the alleged bribery has been going on.

How much did GSK pay out in bribes? Did this inflate the price of GSK's drugs to patients?

Gao claims GSK spent 3bn yuan (£320m) on bribes. GSK has refused to comment.

One of the arrested executives, Liang Hong, told Chinese state TV that it raised prices Chinese consumers pay for GSK's drugs by up to 30%.

Abbas Hussain, the company's head of emerging markets who was dispatched to Shanghai to oversee the crisis, has promised it will cut the price of its drugs in China.

When did GSK first become aware of these allegations and why did Witty not address accusations of wrongdoing in China earlier?

The Chinese authorities announced the charges and arrested the four GSK executives on 15 July – this was just a week after the company said a four-month internal investigation found "no evidence of corruption or bribery in our China business".

That internal investigation was prompted by a whistleblower who wrote to GSK's board this year alleging that Chinese sales staff had been engaged in the "widespread bribery of doctors to prescribe drugs".

GSK's operations in China have long been plagued by allegations of bribery and corruption. Last year, GSK sacked 56 employees in China for violating its rules, out of a worldwide total of 312 dismissals.

The New York Times claims it has seen an internal audit showing GSK was warned about serious problems in its Chinese research and development facilities as early as November 2011. The report includes a claim that GSK failed to release the results of a drug trial on mice when it was already testing the drug on humans.

How far up the corporate food chain did the corruption reach?

GSK has refused to say how many of its executives appear to have breached Chinese laws, or name any individuals it suspects. Sources close to the company suggest the allegations are restricted to the four Chinese executives detained by the police.

However, the Chinese police are preventing GSK China's British finance director Steve Nechelput from leaving the country, and want Mark Reilly, the British boss of GSK China, to return to Shanghai.

GSK has refused to comment on whether Nechelput or Reilly were involved or aware of the bribery allegations. The company has also refused to say if or when Reilly will return to China.

What will Witty do to clean up GSK's Chinese operations?

Hussain said GSK is taking the charges "extremely seriously" and will take "all necessary actions to ... root out corruption wherever it exists", but the company has not so far given any details of specific measures it will take.

What information has GSK passed to the Serious Fraud Office?

GSK said it is regularly briefing the SFO, but has not said what information it has passed on.

Can Witty assure shareholders that staff in other countries are not bribing doctors?

Last year GSK paid a \$3bn (£1.9bn) fine in the US to settle claims that it tricked and bribed doctors into prescribing dangerous antidepressants to children. After the settlement Witty vowed that a company-wide overhaul would prevent a repeat of the scandal.

Chinese police have arrested a second western businessman in connection with an investigation into alleged bribery of doctors by drug companies.

The US embassy said an American citizen has been detained by detectives investigating fraud and corruption in the Chinese medical system. The embassy refused to name the individual or say for which company he worked.

Sources at GSK and AstraZeneca, the British drug companies helping police with their inquiries, said the arrested person was not directly employed by them.

It follows the arrest of Peter Humphrey, a British private investigator who has worked for GSK in the past, on 10 July.

Police also detained two members of AstraZeneca's Chinese staff for questioning on Tuesday. The employees in Astra's main Shanghai sales centre are line managers of an Astra sales representative detained on Friday.

An Astra spokeswoman said one of the managers was "continuing to assist the [Shanghai public security] bureau with their inquiries". She said there was "no reason to believe [the arrest] is related to other investigations".

Meanwhile, four more western drug companies – Sanofi, Novartis, Merck and Roche – said they had used the same travel agency that GSK allegedly used to funnel bribes to doctors. All four companies said they had stopped using the Shanghai Linjiang agency.

China's health ministry said 39 hospital staff at a hospital in southern Guangdong province would be punished for taking £300,000 worth of bribes from two drug companies between January 2010 and December 2012.

"The vice-chairman of the hospital's trade union and two people in charge of the two pharmaceutical companies involved have had their cases transferred to judicial organs, while nine doctors who directly received kickbacks were dismissed, suspended or had their licences revoked," China's state news agency reported.