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ASIA EDITION

GSK China scandal: What have been the highlights?

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What started early in February this year, as a seemingly small scale price check by the Chinese regulator into the functioning of the drug makers operating in the country, soon turned into a grand scandal, with skeletons tumbling out of GlaxoSmithKline's closet one after the other. As the world held its breath tracking the development of this scandal all through last month, the magnitude of the revelations, albeit shocking in nature, did not bring GSK's oriental dreams crashing down entirely.

Early in February this year, the Chinese regulatory authorities started probing the pricing practices followed by the drug makers operating in the country. Alongside, an email by an anonymous whistleblower revealed that sales executives working with the British drug maker in China were involved in bribing Chinese doctors with extravagant gifts in return for prescribing GlaxoSmithKline drugs to their patients. The company immediately launched an internal inquiry into the allegations made by the whistleblower and soon announced in a statement that post 'through investigations' it found 'no cases of bribery in the company's China operations.'

So much so, that the company said in their statement, "GSK wants to reiterate to its patients, staff and partners in China that these allegations are false."

However, all was not well at GSK's China office, as revealed by a raid into the company's office by the Changsha police in China. It was then rumored that the company is being investigated for 'economic crimes'. The rumors turned into reality, as less than a week after the raids, the Ministry of Public Security in China made its first detailed public disclosure of allegations against senior executives of GlaxoSmithKline who had been placed under criminal investigation for suspected bribery and tax violations. The police had then said that they found evidence that GSK falsified invoices used by travel agencies to bribe government officials, medical associations, hospitals and doctors in China.

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The company continuously maintained that they were not aware of any details of the investigations "The company is unclear about the precise nature or purpose of the investigation. There is nothing further to add to that," Mr Simon Steel, a GSK

spokesperson told the media in London on July 5.

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Meanwhile, the Chinese police left no stone unturned in sealing the case off. Mr Gao Feng, head, Economic Crimes Investigations Unit, Public Security Ministry revealed to the press in Beijing on July 16, that GSK was involved in economic crimes involving $489 million of spurious travel, meeting expenses and trade in sexual favors. He further informed that they had found proof against other drug makers operating in the country and they too would come under scrutiny soon. "From our investigation we have also found some clues of illegal money transfers involving other foreign companies. Whether they have been involved in these allegations we are not so sure now," he had said then. But in days to come, firms like AstraZeneca and UCB would come under the scanner and employees from these firms would be probed too.

Meanwhile, the authorities in China made another revelation into the scandal: GSK sales representatives had allegedly paid out upto $489 million in bribes. As an immediate reaction, GSK released a statement explaining that the allegations made against the senior executives of the company are 'shameful'. "We are deeply concerned and disappointed by these serious allegations of fraudulent behavior and ethical misconduct by certain individuals at the company and third-party agencies. Such behavior would be a clear breach of GSK's systems, governance procedures, values and standards. GSK has zero tolerance for any behavior of this nature. These allegations are shameful and we regret this has occurred," the statement said.

This seemed to be only the start. GSK China's vice president and operations manager (and one of the accused) appeared on national television that evening to publicly accept bribery charges. The 49-year-old VP, appearing to be speaking from his detention cell, said, "Having spent time reflecting over the past couple of days, I think the money we spent to run our business was too much. All of these costs (of our bribery) were included in the price of the drugs. The money we spent running the business accounted for about 20 to 30 percent of the drug price."

The Chinese ministry soon stated that GSK's executives had 'violated China's laws and damaged markets by engaging in bribery to raise drug prices, expand sales and reap inappropriate profits. The police also raised concerns about GSK's China operations head, Mr Mark Reilly's absence from the country, in spite of the ongoing investigations. Mr Reilly had left the country on June 27, merely days after the Changsha police in China announced investigations into the bribery case. The police further placed a travel ban on Mr Steve Nechelput, GSK's finance chief who tried to fly out of the country.

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At the same time, the British drug maker sent its head of emerging markets Mr Abbas Hussain as a damage control move. In his first public statement Mr Hussain apologized to the Chinese authorities. He further promised that the company was taking the charges 'extremely seriously.'

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"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. We have zero tolerance for any behavior of this nature," Mr Hussain said.
A couple of days after this, while announcing the company's interim results, GSK CEO Sir (Dr) Andrew Witty reiterated the same things. "GSK's head office in London knew nothing of the fraud allegations until they were announced by the Chinese police," he argued. "The Chinese investigation appears to be focused on a number of senior managers, potentially defrauding GSK and doing something inappropriate and illegal. The allegations are shameful and deeply disappointing. To be crystal clear we have zero tolerance to this sort of behavior," he added.

On July 26, the company made a senior management change announcement. Senior vice president of Europe Mr Herve Gisserot took over as general manager from Mr Mark Reilly, who would now remain with the company as a senior member of the management team, the company spokesperson said.

Mr Gisserot's main role will be to ensure that GSK's China business continues to operate as smoothly as possible. Even the travel ban on Mr Nechelput was lifted. As this edition went in for print, the Chinese government released yet another statement claiming that other pharma giants were being probed closely and the evidence collection was currently on.

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