

Supply chain

We want to source from companies that maintain high labour and environmental standards. Inadequate environment, health and safety (EHS) and human rights standards are an indicator of poor management. This can impact on quality, compromise patient safety and impede continuity of supply of essential medicines. Association with poorly performing suppliers could also damage our reputation.

Headlines

Contracts

- Strengthened human rights requirements in supplier contracts

Monitoring

- 55 EHS audits of critical suppliers
- Ten spot checks of promotional goods suppliers

Anti-counterfeiting

- 71 raids conducted
- £15 million worth of counterfeit goods recovered

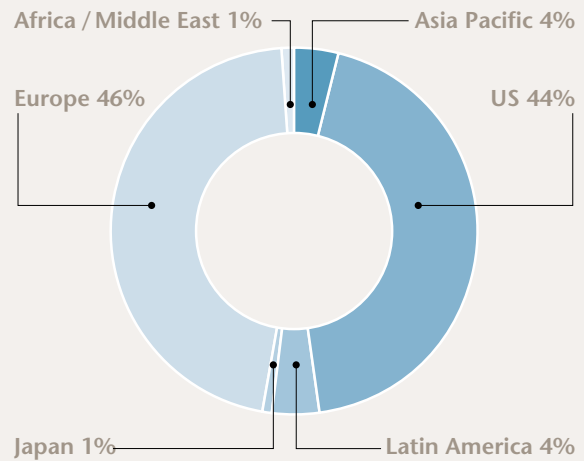
This section covers:

- Environment, health and safety and human rights standards in our supply chain
- Security of supply measures
- Our anti-counterfeiting efforts
- Fair treatment of suppliers

Our supply chain

Number of suppliers: 90,000
Spend: £8.2 billion

Spend by region



We buy goods and services from around 90,000 suppliers. Our supply chain is complex: it ranges from strategic relationships with suppliers that manufacture active pharmaceutical ingredients, intermediates, raw materials and packaging for GSK medicines through to contracts for goods and services such as office equipment, cleaning and security.

Supply chain standards

Our approach

Our approach to ensuring high standards for our global suppliers includes:

- Pre-assessments to determine whether we will work with a potential new supplier
- Inclusion of human rights clauses in all supplier contracts and full EHS requirements in contracts for critical suppliers
- Review of EHS and human rights in routine supplier engagements (for example business performance meetings)
- EHS audits of suppliers
- Regular progress monitoring and additional support

Supplier contracts

Our supplier contracts contain EHS requirements based on our Global EHS Standards, and human rights clauses based on the International Labour Organization conventions and the UN's Universal Declaration of Human Rights. In 2007, we strengthened our supplier selection process so that companies must agree with our human rights requirements before they can be included in the selection process.

Risk-based approach

Our supply chain is large and complex so we use a risk-based approach to target our efforts. We focus on 'critical suppliers' which are mostly based in Europe, North America and Asia and account for approximately 30 per cent of our supplier spend. Critical suppliers include contract manufacturers and suppliers that present the greatest risk to GSK on one or more of the following issues:

- Relevance to the supply of essential medicines
- Threats to continuity of supply and value to GSK
- Regulatory requirements
- Hazards associated with manufacturing processes and materials
- Environmental impacts

We develop long-term relationships with critical suppliers and conduct regular monitoring to support the uninterrupted supply of high quality materials and services to GSK.

Supplier selection

We conduct a detailed assessment of critical suppliers before they are selected. We use questionnaires, onsite reviews and EHS audits to assess their performance on health and safety, environmental and human rights issues.

Critical suppliers must achieve a minimum EHS audit score of 50 per cent against GSK EHS standards before they can supply GSK. In some cases we develop improvement plans with potential suppliers and offer training and technical support to enable the supplier to achieve the required standards.

EHS audits also include questions which help us identify potential breaches of the human rights clauses included in supplier contracts. Suppliers are asked for information on policies and practices relating to:

- Age limits for employees
- Discrimination against employees and the local population
- Prevention of abuse of individuals
- Wages, benefits and working hours (whether they meet the legal minimum)
- Rights for workers to organise and recognition of worker organisations

These questions do not contribute to the EHS audit score, but may be a reason not to progress business with a supplier.

All contract manufacturers must be approved by the applicable regulatory authorities for quality reasons before they can start manufacturing GSK medicines.

Monitoring and engagement

We consider EHS and human rights issues during routine interactions with critical suppliers. These interactions include ongoing supplier reviews as well as follow-up visits by procurement, quality and EHS staff.

We hold global and regional supplier review meetings where senior GSK managers interact with suppliers on key issues. We provide contract manufacturers with information on the EHS risks associated with the GSK materials they are producing or handling and our supplier booklet on working with GSK includes our ethics policies and requirements.

We conduct regular EHS audits of critical suppliers of pharmaceutical and consumer healthcare products. We focus on the 150 higher-risk suppliers.

Supplier facilities are evaluated against our EHS standards and must achieve a score of at least 50 per cent against GSK EHS standards to continue supplying GSK. Suppliers develop improvement plans based on the audit findings and we follow up to monitor progress against these plans.

We will provide feedback to suppliers if we identify any issues through the questions relating to human rights (see above). We will require corrective action if the issues present a potential breach of the human rights clauses included in supplier contracts.

Training for GSK procurement teams

We train key procurement group management to make sure these managers understand our standards and requirements for EHS and human rights.

In 2007 we continued our Effective Contracting training programme for procurement employees. This included an explanation of the importance of human rights clauses in supplier contracts.

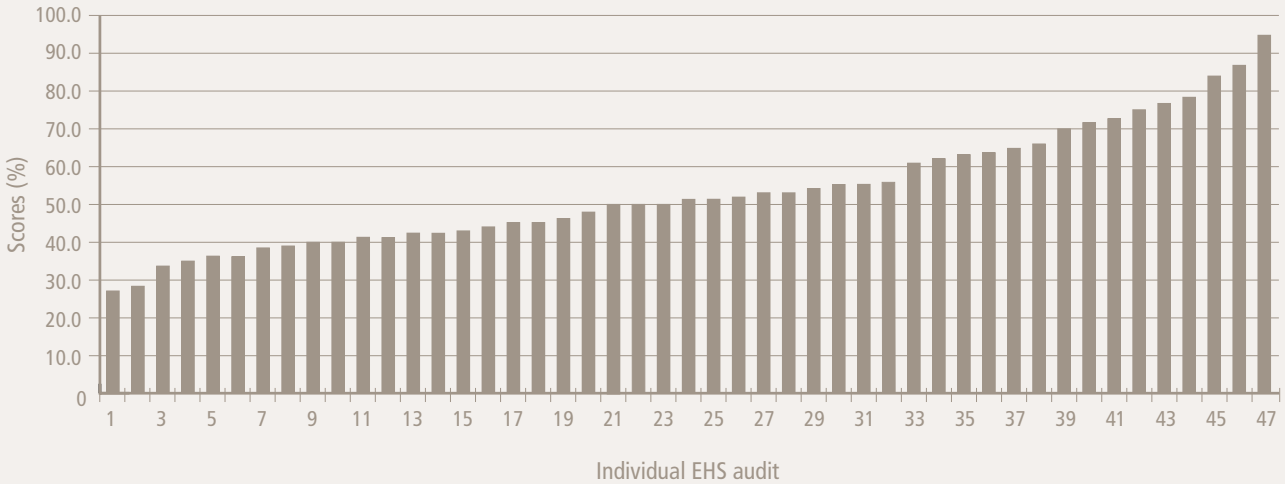
Suppliers of promotional items

Many of our gift items for our Indian business are sourced from within India in an industry with a higher risk of the use of child labour.

We conduct unannounced spot checks for these suppliers, often during the night. These focus on maintaining quality standards but are also used to check that suppliers are not using child labour. The spot checks are conducted by GSK procurement and regional sales staff.

Our performance

EHS audit scores 2007



Number of audits in 2007

	Asia	Americas	Europe
Type of supplier			
Primary (raw materials, intermediates and active pharmaceutical ingredients)	28	3	7
Pharmaceuticals (formulations)	3	7	1
Consumer Healthcare (excipients, actives, raw materials)	6	0	0
Type of engagement			
Audit/review	33	10	7
Technical transfer/other visit	4	0	1
Average audit score	46	68	69

In 2007, we conducted 55 supplier audits/reviews¹. The chart shows the range of audit results – the highest score was 95 per cent and the lowest 27 per cent. The average audit score was 53 and 20 out of 47 suppliers failed to meet the minimum requirement of 50 per cent against GSK EHS standards. Potential new suppliers that scored below the minimum level were either not progressed or work is underway to improve performance to acceptable levels. We work with existing suppliers to ensure necessary improvements are made within an agreed timeframe.

The most significant audit findings in 2007 occurred mainly in emerging economies. These included:

- No infrastructure for fire protection or poor emergency response capabilities
- Absence of fundamental risk controls for process safety

- Poor control of exposure to hazardous substances
- Poor waste management and environmental controls
- Frequent regulatory findings

No significant issues were identified relating to the human rights questions we ask during audits.

Promotional goods suppliers in India

In 2007 we conducted ten unannounced spot checks of promotional goods suppliers in India (at least one visit for each company supplying promotional goods to our Indian business in 2007). These uncovered no evidence of child labour.

During a spot check conducted in 2006, we found one supplier using child labour. We issued corrective actions to this supplier and emphasised that the use of child labour represents a contractual breach and is completely unacceptable. In 2007, a follow-up visit confirmed that this supplier had completed the corrective actions and no longer uses underage workers. In 2007, we also wrote to all our suppliers to raise awareness of our human rights policy.

We currently do not conduct spot checks of promotional goods suppliers in other countries.

EHS performance of contract manufacturers

We are working to assess the EHS impacts of our contract manufacturers. See the [Environment section](#) of this report on page 78 for more information.

¹ Not all reviews are scored

Raising supplier standards in India

In 2003, we assessed a potential new supplier of active pharmaceutical ingredients in India. We conducted initial audits of the supplier's two facilities to assess whether it could supply GSK. The facilities scored 37 and 23 per cent, well below the GSK minimum of 50 per cent. However, rather than simply refusing to work with the supplier we made recommendations and agreed action plans on how the supplier could improve. We provided guidance and training to support them with progressing improvements. We also brought the supplier to our manufacturing facility in Jurong, Singapore, as an example of good practice.

Four years on, the supplier has achieved the minimum required standards to work with GSK. We will continue to monitor and support the supplier to ensure performance continues to improve.

Security of supply

Ensuring a continuous supply of high quality medicines is essential to the patients who depend on our products, as well as to the success of our business. It is vital that security of supply is not compromised at any stage of the distribution chain.

Strategy directors from each therapy area have overall responsibility for security of supply. Divisional heads meet our procurement teams every month to discuss any potential issues.

GMS (our manufacturing business) implements contingency plans for a list of 'medically critical' products. These plans are defined on a product by product basis but may include:

- Holding sufficient stocks of products, where the product has a long shelf life
- Holding sufficient stocks of active pharmaceutical ingredients
- Sourcing products from more than one location (known as 'dual sourcing')

We work with all critical suppliers to encourage them to implement their own contingency plans. In high risk countries we will set up joint ventures to ensure that we maintain control over the distribution chain. We have three global contracts for suppliers that deliver goods between GSK facilities and distribute products to market. We conduct regular high level operational reviews of these suppliers, which include security elements.

Counterfeiting

According to the World Health Organization (WHO), less than one per cent of pharmaceutical products sold in developed countries are counterfeit, but in the developing world this figure may be higher than 10 per cent, and up to 30 per cent in some countries.

Counterfeit drugs come in many variations, and may contain:

- None of the legitimate active ingredient
- The active ingredient in reduced or sub-therapeutic amounts
- A completely different and/or inappropriate active ingredient
- Impurities such as unapproved colourants or micro-organisms
- Packaging that falsifies the product description or expiry date

Most counterfeit drugs are not subject to quality control, hygiene standards, testing of ingredients, monitoring of product specifications or equipment. Counterfeiting is a threat to public health, potentially causing harm to patients and even death.

Our approach

We add anti-counterfeiting features to our product packaging. These include holograms, security seals, complicated background patterns that are difficult to photocopy or scan, as well as a wide variety of covert identifiers which are added using print technologies and sophisticated markers. These help us to identify counterfeits and gather evidence against offenders. Our Packaging Security unit in the UK carries out forensic examinations of all suspected counterfeit GSK product.

Our sales employees world wide also play an important role in helping to discover counterfeit products through continual observation of the local market place. Our Corporate Security department investigates every potential case of counterfeiting and uses internal and external investigators to collect information which we then assess and report to the relevant government authorities to set in motion official law enforcement action.

As well as removing fake products from the market one of our primary aims is to trace the products back to source, to shut down the manufacturers and their partners (for example the packaging printers). We provide training for regulatory authorities, such as the FDA in the US, law enforcement agencies and customs officers in many parts of the world.

GSK works very closely with the wider industry to investigate cases of counterfeiting and we also raise awareness with governments internationally, pressing for stricter laws and more severe penalties. GSK is also a founding member of the Pharmaceutical Security Institute, (PSI), which coordinates the information collection and investigation process within the international pharmaceutical industry. The PSI is influential in helping to shape anti-counterfeiting policy among national governments and international organisations. Together with the PSI, GSK is a major contributor to the WHO's internationally represented anti-counterfeiting working groups.

For many years, GSK has been working with the Chinese Public Security Bureau to help eradicate the trade in counterfeit medicines. During 2007, we supported a major investigation that resulted in the arrest of an organised counterfeiting syndicate in Guangdong and Anhui Provinces, and the closure of an 'underground' factory. A huge quantity of counterfeit *Heptodin* and *Panadol* tablets were seized, along with the products of other multinational companies. The total market value of the seized products amounted to 100,000,000 RMB, (£6,750,000). This market value did not include the vast quantity of raw materials and semi-finished products that were seized. The quality and sanitary conditions at the factory were appalling. Subsequent scientific analysis revealed that the factory had also been producing counterfeit *Zeffix* for international markets.

Ten defendants in this particular investigation have now been convicted of counterfeiting; the two principals were sentenced to seven and a half and five years imprisonment respectively. The remaining eight defendants were sentenced to terms of imprisonment ranging from 16 to 20 months. Fines were also imposed.

The dismantling of this counterfeiting network has had a significant impact on the supply of counterfeit *Heptodin*, *Zeffix* and *Panadol* to the GSK China and International markets.

Criminals also counterfeit our consumer products. For example in 2007, we discovered counterfeit *Sensodyne* toothpaste in the UK that had been manufactured using diethylene glycol, a toxic substance, in place of glycerol. GSK contacted the authorities and media to raise awareness of the issue, and how to identify the fake toothpaste. We traced the counterfeit product back to a factory in China which was shut down by the authorities.

Our performance

In 2007 there were 429 reported cases of counterfeiting of GSK products. These resulted in 71 raids, 127 arrests with £15 million worth of counterfeit products found during raids.

The number of 71 raids includes seven criminal manufacturing facilities and 59 wholesale/distribution outlets. The seven factories represent criminal operations that were capable of mass production of counterfeit medicines and other healthcare products. The raids on these facilities undoubtedly prevented huge amounts of counterfeit product from entering legitimate markets around the world.

Anti-counterfeiting

	Number of reported cases of counterfeit	Number of raids	Number of arrests	Value of counterfeit products found during raids
2007	429	71	127	£15 million
2006	248	57	94	£10 million
2005	334	47	31	£13 million

Fair treatment of suppliers

It is important that we treat our suppliers fairly and pay them promptly. In some regions we conduct surveys to measure supplier satisfaction.

Improving speed of payment in the UK

In 2007, we launched a programme to improve our performance for paying UK suppliers on time. In 2006, we paid around 75 per cent of suppliers on time. The main causes of late payment were: invoices being submitted on paper rather than through the preferred electronic system; invoices without a purchase order (PO) number; invoices submitted after the date on the invoice; and delays in the approval of invoice payment.

We worked with suppliers to encourage them to use the electronic system and to submit invoices on time. We also standardised payment terms for as many suppliers as possible, raised awareness about the use of POs and made the invoice approval process more efficient. This increased the proportion of suppliers paid on time to 83 per cent.

The future

We will continue to work with critical suppliers to help improve their EHS performance. This will include:

- Developing closer relationships with key suppliers through training and engagement
- Conduct business forums for suppliers to raise awareness of our standards
- Identify strategic suppliers to achieve 'Highly Protected Risk' status (high levels of engineering and fire protection standards)



What are you doing to raise standards in your supply chain?

We have long-term relationships with our critical suppliers and we offer them training and support to help them raise standards. Our monitoring process is a key part of raising awareness of our expectations and identifying areas where suppliers need to improve. We work with our suppliers to help them make the necessary changes identified.

Are there human rights risks in your supply chain?

GSK's supply chain is large and complex, and like all similar supply chains, contains a risk of human rights violations. These risks vary considerably based on the type of supplier and the goods or service we are sourcing. Our manufacturing and R&D suppliers employ skilled workers so there is a lower risk of human rights violations. Our EHS audits aim to ensure good working conditions at these supplier facilities. There are considerably higher human rights risks in suppliers that employ low skilled workers, for example promotional goods suppliers. We conduct spot checks of these suppliers in India.

Our supplier selection process aims to ensure we only enter relationships with suppliers that respect human rights. We also include clauses in contracts with all suppliers which specify that upholding human rights is a condition of doing business with GSK.

What are you doing in your supply chain to plan for a flu pandemic?

We have implemented a contingency plan to ensure our operations and the supply of medically critical products are not compromised by a flu pandemic. We are now encouraging our critical suppliers to implement their own contingency plans.

Have the problems of contamination of pharmaceuticals and toothpastes made in China affected any GSK products?

No. When evidence of contamination of non-GSK products is reported in the media we conduct an extensive quality check to ensure no GSK products are affected. We have a rigorous assessment programme to ensure the highest quality is maintained in our products.

Links

In our CR report

- [Human rights](#)
- [Ethical conduct](#)

In the background section of our website

- [Our Global EHS Standards](#)

Our [human rights clauses](#)