

Counterfeit Drugs' Path Eased by Free Trade Zones

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DUBAI, United Arab Emirates — Along a seemingly endless row of identical gray warehouses, a lone guard stands watch over a shuttered storage area with a peeling green and yellow sign: Euro Gulf Trading.

Three months ago, when the authorities announced that they had seized a large cache of counterfeit drugs from Euro Gulf's warehouse deep inside a sprawling free trade zone here, they gave no hint of the raid's global significance.

But an examination of the case reveals its link to a complex supply chain of fake drugs that ran from China through Hong Kong, the United Arab Emirates, Britain and the Bahamas, ultimately leading to an Internet pharmacy whose American customers believed they were buying medicine from Canada, according to interviews with regulators and drug company investigators in six countries.

The [seizure](#) highlights how counterfeit drugs move in a global economy, and why they are so difficult to trace. And it underscores the role played by free trade zones — areas specially designated by a growing number of countries to encourage trade, where tariffs are waived and there is minimal regulatory oversight.

The problem is that counterfeiters use free trade zones to hide — or sanitize — a drug's provenance, or to make, market or relabel adulterated products, according to anticounterfeiting experts.

“Free trade zones allow counterfeiters to evade the laws of the country because often times the regulations are lax in these zones,” said Ilisa Bernstein, director of pharmacy affairs at the United States [Food and Drug Administration](#). “This is where some of the Internet sellers work,” she added.

Dubai is particularly attractive to counterfeiters because of its strategic location on the Persian Gulf between Asia, Europe and Africa. Records show that nearly a third of all counterfeit drugs confiscated in Europe last year came from the United Arab Emirates. “Three or four years ago, Dubai did not even appear on the radar screen,” said an investigator for a major American drug company who is based in China and requested anonymity because he did not have authority to speak for his employer.

Dubai is vulnerable because of the huge volume of goods that move through its free trade areas, and because of what is perceived by some in the pharmaceutical industry to be a murky line of authority for rooting out counterfeits there. “It is not clear that the normal Dubai customs authorities have jurisdiction,” said Rubie Mages, a director of global security for Pfizer.

The authorities in Dubai do show a willingness to act when drug company investigators tip them to possible counterfeits, as they did in the raid announced earlier this year.

“Dubai has taken a big step in fighting the counterfeiters,” said Ahmed Butti Ahmed, director general of Dubai customs.

But significant quantities of fake drugs are still getting through, international health officials say. And as countries create more free zones, counterfeiters have more options. “What happens is they move around,” said Ms. Bernstein of the F.D.A. Sometimes, in an attempt to avoid detection, they move products between free zones.

“It’s not just the U.A.E. trade zones that are a problem, but free zones around the world,” said Steve Allen, a senior investigator for Pfizer, who was in Dubai early this month to talk to customs officials.

One problem area, counterfeiting experts say, is the Colón Free Trade Zone, situated next to the Panama Canal.

In June, the Panamanian authorities raided a warehouse there that was used by an Australian, George Adams, to run his Internet pharmacy business. No charges were filed in connection with that raid, but about \$50,000 in drugs were seized, Mr. Adams said. Several months earlier, Mr. Adams had been arrested for trying to sell counterfeit [Viagra](#). He said he was “set up” and denies any wrongdoing.

Mr. Allen, of Pfizer, said his latest concern involves counterfeit shipments passing through Jordan and Mauritius, an island east of Africa.

In July, the authorities in Dubai said fake drugs from Mauritius had been seized at a free zone next to the Dubai airport. There were more than half a million pills of counterfeit Plavix, a blood-thinning drug made by the French company Sanofi-Aventis.

The Dubai health authorities say they do not know who made it.

Some pills, a government official said at the time, contained cement powder.

A Suspicious Shipment

On May 22, 2006, British customs officials made a troubling discovery at Heathrow Airport in London. They intercepted 846 pounds of [pharmaceuticals](#), mostly counterfeits of products made by such well-known companies as Merck, Novartis, AstraZeneca, Pfizer and Procter & Gamble. Some medication contained traces of metal.

These were not just lifestyle drugs; this medicine was supposed to treat [high blood pressure](#), high [cholesterol](#), [osteoporosis](#) and [acid reflux](#), among other ailments.

Where the drugs came from and where they were going struck inspectors as odd.

The shipment had arrived from the United Arab Emirates en route to its next destination: the Bahamas. This was not a route the drug companies used, said Nimo Ahmed, head of intelligence for the British drug regulatory agency. “What triggered this particular interception was that the pharmaceutical companies had conducted some awareness training with customs in Heathrow to explain suspicious routes,” Mr. Ahmed said.

Pfizer took a particular interest in the case. Thousands of pills of its cholesterol-fighting drug [Lipitor](#) had been among those counterfeited, the company said.

Pfizer, which runs one of the industry's most sophisticated anticounterfeiting operations, contacted Bahamian law enforcement officials in the hope they would investigate the intended recipient of the Heathrow cache. In early June, the Bahamian authorities followed up and raided the Personal Touch Pharmacy in Freeport, seizing nearly \$4 million in drugs, some of which turned out to be counterfeit, investigators said.

Eventually it was determined that the pharmacy did \$8 million in annual business. The question was, with whom?

Meanwhile, back in London, there was the matter of tracing the drugs back to their source. That led to one of the many free trade zones in the United Arab Emirates. Those zones are major revenue producers for the emirates and, according to a 2006 State Department report, 17 of them were in operation, with 11 more in development.

"The government in Dubai, believing in the liberal market, adopted this concept," said Mohammed Y. Rai Al Boom, a spokesman for the Dubai Airport Free Zone Authority. "It is very convenient to get products in and out of Dubai."

Mr. Ahmed, the British health official, said the zones were set up to encourage legitimate trade. "They will process packages quicker, receive fees for them, and if everything is done legitimately it's a win-win for everybody," he said. But, he added, "counterfeiters are using it as a way to hide where their products are originally sourced."

Free zones act as way stations for goods moving around the globe. Since most of the shipments do not officially enter the country, there are fewer bureaucratic entanglements. In the emirates' zones, the usual requirement for local ownership of companies is waived, and there are no import and export fees or income tax.

Shipping records showed that the Heathrow container came from a company located in a free zone in Sharjah, one of the emirates.

Drug company investigators say that shortly after the raid in the Bahamas, an effort was made to hide additional drug stock by moving it from Sharjah to the Jebel Ali Free Zone.

Afaque Ahmed Khan, a business executive in Dubai, has seen Jebel Ali grow from nothing. "It's literally like someone walking in the sand and placing his figure on a spot and saying, 'This here is going to be the transit point for trade, globally,'" Mr. Khan said. "And that's what happened, literally."

By far the biggest and oldest free zone in Dubai, Jebel Ali is home to some 6,000 companies. A major new airport is being built to complement the seaport, where millions of containers from boats around the world are unloaded each year.

The counterfeit drugs were put in warehouse VC-08, which belonged to Euro Gulf, a trading house that sells laundry, household cleaning and personal care products, according to its Web site. "Our proactive international strategy has resulted in an increase in exports to more than 40 countries worldwide," the Web site said.

But customs officials in Dubai had been alerted to what was inside. They swept in, found counterfeit drugs and charged seven people with various crimes.

A Canadian Pharmacy

In the Bahamas, investigators had also made an important discovery. The computers at Personal Touch Pharmacy were connected to a server hosting a Canadian Internet pharmacy Web site.

The site belonged to RxNorth, described by one trade association as the world's first major online pharmacy.

A founder, Andrew Strempler, had been the subject of numerous profiles, including one in The New York Times in 2005 that described how at the age of 30 he had two Dodge Vipers, a Jaguar and a yellow Lamborghini with a license plate that reads "RX Boss."

The article reported that Mr. Strempler's innovation "created a whole new Canadian industry that has plugged a niche in America's troubled health care system almost overnight, providing about \$800 million worth of low-cost drugs a year to two million uninsured and underinsured Americans, many elderly." Drugs have traditionally been cheaper in Canada because of its health care system.

The big pharmaceutical companies were not pleased. Pfizer and Merck cut off his supplies, forcing Mr. Strempler to buy from other wholesalers.

That was not Mr. Strempler's only setback. According to the Manitoba Pharmaceutical Association newsletter, the group's [discipline](#) committee concluded that in 2001 Mr. Strempler had improperly filled "in excess of 10,000 orders for medications for patients residing in the United States of America without receiving [prescriptions](#) from a medical practitioner or dentist licensed to practice in Canada."

Mr. Strempler's online business began to unravel last year when Edward Hector, a former customer service employee, complained to a Canadian television station about the company's business practices. In a recent interview, Mr. Hector said he was told, "Under no circumstances are you to tell any customer that their medication comes from the Bahamas." Mr. Hector said he left RxNorth in May 2006 after working there for a little more than a year.

Mr. Strempler did not return telephone messages seeking comment, but he has publicly defended his products. The television station also quoted him as saying customers were not told about the Bahamas because medicine coming through there might actually originate in Europe or Australia. It was not clear if he knew the true source of drugs being dispensed by the company in the Bahamas.

In fact, drug company investigators say, some of them were coming from China, a country known for producing counterfeit medicine.

“We traced the source of the medicines and determined that they had been manufactured in China,” said Ms. Mages of Pfizer. From the mainland it went to Hong Kong, then to the United Arab Emirates and the Bahamas, where individual prescriptions were filled and put into packets and addressed.

“Instead of sending it directly to the patient, it then went back to the U.K., where U.K. postage would be affixed, and then it would be mailed to the U.S.,” Ms. Mages said. “This was done to lend credibility to the medicine.”

Drug company investigators say they believe that at least some of the counterfeit drugs seized at the Jebel Ali zone were following that same route.

Mr. Ahmed, the British health official, said circuitous routes were used to avoid customs checks. “The chance of getting intercepted lessens if they use this route,” he said. And Ms. Mages cited another reason: “The whole purpose of going through multiple points of entry is to disguise the source.”

In August and September of last year, the F.D.A. intercepted 5,000 packages from the online pharmacy. At the same time, the agency also warned Americans not to buy 10 drugs from RxNorth or related Web sites because preliminary testing had found counterfeits.

The drugs named were: Lipitor, [Crestor](#) and Zetia, for cholesterol; Diovan and Hyzaar, for high blood pressure; Actonel for osteoporosis; Nexium for reflux disease; [Celebrex](#) for [arthritis](#) pain; Arimidex for [breast cancer](#); and Propecia for [baldness](#).

Trail’s End

Mr. Strempler has not been charged with any crime relating to RxNorth, and published reports say about a year ago he transferred dispensing operations to another Canadian online pharmacy.

The F.D.A. declined to comment on RxNorth. Health Canada, the national health agency, said it “cannot comment on ongoing investigations, specific companies or alleged violations with respect to possible counterfeit activity.”

In the Bahamas, a pharmacist and office manager for Personal Touch Pharmacy face trial next year on conspiracy and fraud charges, said Garvin Gaskin, chief counsel for the office of attorney general in the Bahamas.

In Dubai, seven officials associated with Euro Gulf were convicted recently and sent to prison, customs officials said. “We have been successful in getting customs authorities to work with us to inspect and to seize questionable goods, but we still have a long way to go,” Ms. Mages said.

And Mr. Ahmed, the British health official, said he expected individuals to be tried next year on charges relating to RxNorth’s links to Britain. He declined to elaborate.

But a critical piece of the puzzle remains missing — who made the counterfeit drugs? Investigators had obtained the license number of a truck that brought the suspect medicine into Hong Kong from mainland China. But that turned out to be a dead end.

And even if investigators do find the factory, there is no shortage of Chinese companies making fake, subpotent or adulterated drug products.

“Some of them in the morning, they manufacture good drugs and in the afternoon and evening they manufacture counterfeit medicine,” said Dr. Mohammed Abu Elkhair, a health official in Abu Dhabi who helped organize a conference last month in the capital city to educate United Arab Emirates officials on how to combat counterfeit medicine.

In October, The New York Times reported that scores of Chinese chemical companies were exporting drug ingredients even though they were not licensed to do so.

Calling counterfeit medicine a growing global threat, Dr. Abu Elkhair said one only had to look at a mass poisoning in Panama last year to understand the seriousness of the problem. More than a hundred people died there because the government had unwittingly mixed a counterfeit ingredient made by a chemical company in China into cold medicine.

“The people there lost faith in the whole health care system, not just in the drug regulations authority,” he said.