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49% FDI limit likely in existing pharma firms

PM to take call on move to discourage aquisitions

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New Delhi

THE UPA government may tighten norms for foreign direct investment (FDI) to discourage the takeover of domestic pharmaceutical companies by foreign firms.

Based on the recommendations of an inter-ministerial group, prime minister Manmohan Singh will take a call on restricting FDI to 49 per cent in existing drug companies. But, FDI may be allowed up to 100 per cent to set up new companies, as of now.

Restriction of FDI in existing firms will imply proposals for higher FDI will have to be routed through the foreign investment promotion board (FIPB) headed by finance secretary R S Gujral.

All FDI proposals involving investment of Rs 1,000 crore or more will have to be referred to the cabinet committee on economic affairs before the actual investment.

The move will regulate takeover of Indian drug companies by foreign players that has implication for prices of essential drugs in India.

Some big acquisitions in the recent past include the Ranbaxy takeover by Daiichi Sankyo of Japan, Shanta Biotech by Sanofi Aventis of France and Piramal Health Care's health unit by Abbott Laboratories of the US.

"We have taken a decision at our level on approvals to FDI proposals in the pharmaceutical sector. We will send a final report to the prime minister's office (for further action)," said Shanktikanta Das, additional secretary in the finance ministry.

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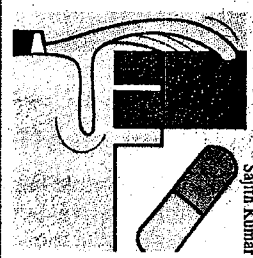

Takeover bids
Some big acquisitions in the recent past

Company	Foreign promoter holding
Ranbaxy Labs	63.66
Sanofi India	60.4
Abott India	74.99

Figures in per cent

Policy
(Along with next page)

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'FDI in generic drugs will kill pharma sector'

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The inter-ministerial group headed by Das has representatives from the ministries of industry, health, external affairs, and overseas Indian affairs. The group was set up after the industry and health ministries differed on regulating FDI in drug companies. The health ministry favoured capping FDI at 49 per cent in existing companies. But the department of industrial policy and promotion (DIPP) has been pushing for retaining 100 per cent FDI, with a caveat that all foreign investment proposals be routed through FIPB.

The health ministry has also proposed that multinational firms keen on acquiring existing firms should seek its approval if they decide to reduce or stop manufacturing essential drugs in the acquired entity and ensure their availability in the domestic market before exporting.

There are concerns that if multinational companies enter, essential drugs could go beyond the means of most people. "FDI should not be allowed in generics and non-patented molecules; else, the cost of drugs will go out of reach of the common man. Also, allowing FDI in generic drugs will kill the domestic pharmaceutical industry as small Indian players will not be able to match scale of big multinational players," said T S Jaishankar, managing director of Quest Life Sciences and chairman of the Confederation of Indian Pharmaceutical Industry (CIPI). Differences among various departments have delayed a policy on mergers and acquisitions in the sector, following which PMO intervened and sought a report. In October 2011 a ministerial group headed by the prime minister himself had put foreign investment in existing drug companies on approval route, changing the 10-year-old policy of automatic clearance, to address the health ministry's concerns after a series of acquisitions.

Under the proposed new rules, for any merger or acquisition, an overseas investor will have to seek permission from FIPB. After six months, it will be the monopoly watchdog Competition Commission of India (CCI) that will vet such deals. Issues were also raised over the competence of CCI to handle such deals.

Proposals from many foreign drug companies are stuck in absence of FIPB approval and pending clarity in the FDI policy. These include proposals of Mitsui, Pfizer and B Braun.

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