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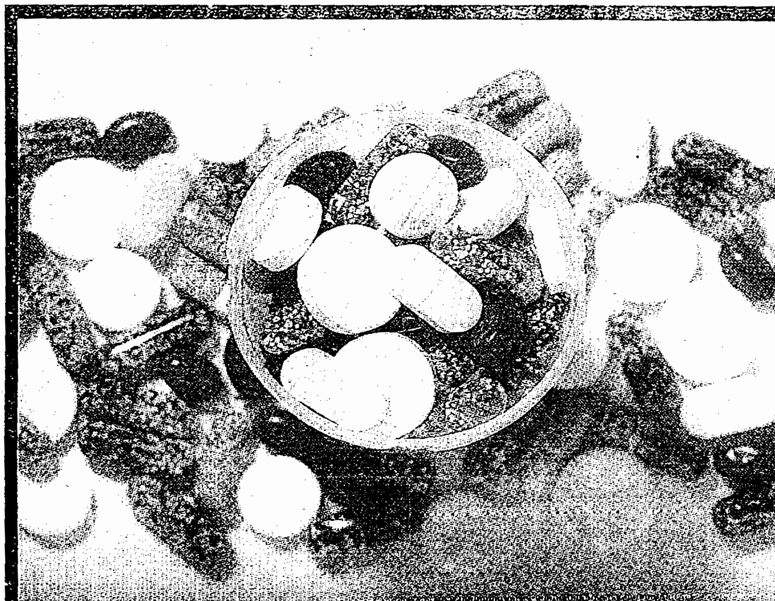
Govt may cut FDI to 49% in pharma industry



LOWERING THE DOSE

- The Centre will soon take a call on slashing the FDI limit in the pharmaceutical sector to bring down the prices of drugs, chiefly essential drugs
- It is mulling capping the FDI limit at 49% in the sector and routing it through the govt
- Currently, the FDI limit in the sector stands at 100 per cent through the automatic route
- Pharma syndicates are lobbying hard to resist this move by the government as it would lower their prospects for M&A with foreign drug firms
- According to officials, acquisition of Indian pharma cos by MNCs is impacting the availability of low-cost medicines

By **Sanjay Singh** in New Delhi

THE GOVERNMENT is expected to soon take a call on slashing the foreign direct investment (FDI) limit in the pharmaceutical sector in order to bring down the prices of drugs, chiefly essential drugs.

It is mulling capping the FDI in the sector at 49 per cent and routing it through the government. Currently, the FDI limit in the sector stands at 100 per cent through the automatic route.

The government fears that 100 per cent FDI will lead to uncontrolled mergers and acquisitions (M&A) by foreign drug firms, which could lead to further increase in drug prices and also cartelisation.

"There is a clear indication from the PMO (Prime Minister's Office) and the health ministry to control the escalating drug prices. State governments have also complained about it. We expect to take a call on it soon. May be around the (time of) annual budget," said a senior official at the ministry of commerce and industry requesting anonymity. The ministry formulates FDI norms.

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> — Senior official, Ministry of commerce & industry

The PMO is learnt to have moved a note to the Union health ministry and other agencies, including the ministry of commerce and industry and the department of pharmaceuticals to initiate steps to cap the 100 per cent FDI in the pharma sector at 49 per cent.

Earlier, the PMO had also sent a note based on the recommendations submitted by global drugmakers, which seeks key changes such as a legislative review of the Indian patent laws, data exclusivity and implementation of patent linkages. The note was sent to the health ministry, department of industrial policy and promotion (DIPP) and department of legal affairs for their feedback.

The step is expected to pull down drug prices

But pharma syndicates are lobbying hard to resist this move by the government as it would lower their prospects for M&A with foreign drug firms.

The acquisition of Indian pharma companies by multinational corporations (MNCs), according to an official, was impacting the availability of low-cost medicines. The commerce ministry had proposed tightening the rules so that Indian acquisitions by MNCs flow through it and not through the automatic route.

Earlier, while appearing before the Planning Commission for funds chief ministers of some states had complained about escalating drug prices, especially essential medicines, and had urged the Commission to initiate steps to reign in the drug prices, which they had said was becoming unaffordable for the common man.

The finance ministry as well as the Planning Commission has also advised the concerned ministries to expedite the process to ensure that 65 per cent Indians, who according to the World Health Organisation (WHO) still lack access to essential medicines are not deprived of affordable and high-quality medicines.

Last year, in the second biggest acquisition of an Indian drug firm, Piramal Healthcare sold its domestic formulations business to US-based Abbot for ₹17, 353 crore ($3.7 billion) deal. In 2008, the country's largest drug maker Ranbaxy Ltd was acquired by Japan's Daiichi Sankyo for ₹21,574 crore ($4.6 billion).

India's ₹35, 175 crore ($7.5 billion) drug industry is among the world's top five bulk drug producers. It is also among the world's 20 top pharmaceutical exporters, with exports growing at 17.8 per cent per annum. India currently ranks third in terms of the volume of production (9.3 per cent of global share) and 14th in terms of value (1.5 per cent of global share)