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Govt may limit FDI in pharma sector at 49%

Rupali Mukherjee | TNN

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Mumbai: The government may soon take a decision to cap foreign direct investment in the pharma sector at 49% from the 100% allowed now. Sources say there is also a thinking in the government to allow 49% foreign investment through the automatic route, and the remaining 51% be approved on a case-by-case basis through the Foreign Investment Promotion Board. At present, 100% FDI is allowed through the automatic route.

Sources said that the health ministry has been championing the move since the department of policy and promotion circulated a note in August last year raising concerns on the growing dominance of multinationals in the sector. Whatever be the outcome, the issue has thrown open a debate, with the domestic generic industry pitted against the foreign multinationals already operating in the country.

Indian Pharmaceutical Alliance (IPA), representing the domestic generic industry, feels "unbridled freedom of acquisitions of Indian companies by the originator companies (foreign MNCs) could marginalize the domestic sector".

Says IPA director general DG Shah, "MNCs have already raised their share of the domestic market to 25% from

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15% five years ago. The increasing dominance of the MNCs will hit the domestic sector in two ways. Firstly, their ability to present their issues before the policy makers will be severely compromised. Secondly, market dominance will lead to more prescriptions for the MNCs, driving away domestic companies."

Generic drug major Cipla's chairman and managing director Dr YK Hamied feels that over the next few years prices of the life-saving drugs will go up. Speaking to TOI, he said: "The Indian government must approach this issue holistically and not look at the cap on FDI in pharmaceutical sector in isolation. The Indian Patent Law allows product patents for all new molecules which have been patented after the year 1995. Many of these molecules are patented in India by MNCs and enjoy a monopoly."

This trend is already visible and over time, India will witness a large number of new molecules being launched in India and the market share of MNCs increasing steadily.

"This monopolistic pricing makes life-saving medicines inaccessible to the majority of people living in India and other parts of the world. This also places millions of lives of people at risk for those suffering from common ailments such as tuberculosis, malaria and other diseases", he adds.

The IPA has taken up the issue with government expressing concerns that the dominance of multinationals in the $12-billion domestic market will impact pricing of drugs, and lead to sales erosion for home-grown companies. It feels that sell-offs by two or three more large companies to MNCs will create immense pressures on others to do likewise. It is also incorrect to assume that once big companies are sold off, others will replace them.

On the contrary, if big companies are sold out to MNCs, others will follow suit, Shah says, adding, some may even transform themselves as contract manufacturers for the global companies.

MNC drug firms have put out an argument that domestic market is fully controlled with "relevant" pricing of drugs. Pfizer India MD Kewal Handa feels that no single company can determine prices.