

Pharma: Walking the tightrope between affordability, profits

Sector outlook

P.T. Jyothi Datta
Mumbai, Dec. 30

It could well turn out to be a significant year for the over Rs 1-lakh-crore pharmaceutical industry, if clarity dawns on contentious issues facing the sector.

Be it implementation of intellectual property laws, signing of free-trade agreements (FTAs), policy of price control on medicines or spate of mergers and acquisitions (M&A) – 2011 will have stakeholders looking to the Government for direction. It all boils down to how the Centre walks the fine line in balancing access to affordable medicines with encouraging industry to maintain healthy bottom-lines.

In fact, 2010 saw policy-makers flag down acquisition of domestic drug operations by overseas pharmaceutical companies. The last five years saw six acquisitions of domestic operations, including the high-profile sale of Piramal Healthcare's domestic operations to Abbott this year.

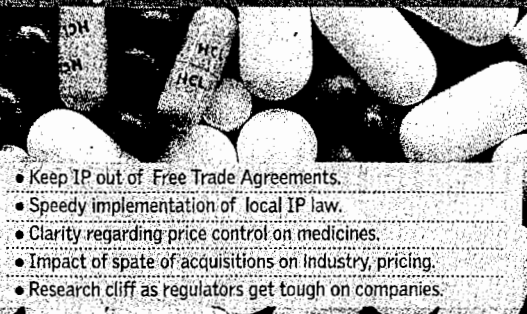
Concerns were raised, including questions in Parliament, on the impact such developments could have on domestic prices of medicines.

A couple of high-profile exits is all it takes to change the direction of the domestic drug industry, and smaller players will follow, observes Mr D.G. Shah of the Indian Pharmaceutical Alliance.

FOREIGN INVESTMENT

The Government will have to decide whether pharmaceuticals is a sensitive sector and foreign direct investment into the sector is restricted, he says. Otherwise, the country would become like Italy, Spain or Portugal, with virtually no domestic industry,

Industry issues



- Keep IP out of Free Trade Agreements.
- Speedy implementation of local IP law.
- Clarity regarding price control on medicines.
- Impact of spate of acquisitions on industry pricing.
- Research cliff as regulators get tough on companies.

already been written and it is a question of when, not if, observes Mr Sujay Shetty, India-Head (Pharmaceuticals) of PricewaterhouseCooper's.

As seen in the Paras deal earlier this month, where it was bought by Reckitt Benckiser for over Rs 3,200 crore, promoters are setting high benchmarks and when deals do happen, they will have a high valuation, he observes.

Price control exercised by the Government on medicines is the other "less glamorous" concern that needs to be addressed, he adds, as the Government threatens to regulate prices for more drugs.

INTELLECTUAL PROPERTY

Also upping the ante of stakeholders is a host of FTAs India is getting into – and domestic drug industry representatives and health advocacy workers urge the Government to keep intellectual property (IP) out of trade negotiations.

Domestic drug-makers have got the wrong end of the IP-stick in overseas markets, with their export consignments being seized at ports through which they transited. Even as the Indian Government stepped in to sort out the problem, it fuelled the domestic industry's misgivings on IP implementation.

For the multinationals too, IP is just as bitter a topic, but for different reasons. Large

ta) and patent-related litigation continues to test the amended Indian patent law to the hilt.

It has been five years since India brought in product patents, yet some of the earliest patent-related cases, like that involving Novartis' blood cancer drug Glivec, have not seen the end of litigation. Mr Shetty cautions, IP needs more clarity, else India could lose much of its large research investments to China.

'RESEARCH CLIFF'

Giving an over-arching view of the pharmaceutical industry, Mr Ranjit Shahani of the Organisation of Pharmaceutical Producers of India (OPPI) says though pharmaceuticals were insulated from the financial crisis, drug-makers are faced with the "research cliff" as regulators become risk-averse, delaying new drug launches and making them more costly.

But as lifestyle diseases and ageing population increase, unmet medical needs continue to be a huge segment that needs attention, he points out.

Against this backdrop, the domestic industry projects growth at 15-17 percent, and GlaxoSmithKline's chief in India, Dr Hasit Joshipura, does not see major changes. A key trigger for change could be higher Government spending on health, he says, a sentiment shared by