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Commerce ministry hires E&Y to check health of pharma sector

■ Study could be an important input in deciding the debate on effect of FDI

Soma Das
New Delhi, Feb 22

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THE commerce ministry has commissioned Ernst & Young to study foreign direct investment in the pharma sector. With conflicting views arising from different ministries on the issue, the commerce ministry has commissioned an in-depth study into the performance of the domestic pharma sector and whether there's need for regulation in the sector. The larger mandate of the study include the factors and conditions that have prompted a series of acquisitions in the domestic drug space by multinationals leading to an increased market share of foreign drug makers in the country.

The study could prove to be the key document that provides direction to the ongoing debate on capping the FDI in the pharma sector and whether foreign investment should require Foreign Investment Promotion Board (FIPB) approval. At present, 100% FDI is allowed in the sector through automatic route.

While most of the concerned ministries — health, commerce, finance and department of industrial policy and promotion (DIPP) — have indicated their stance on whether FDI norms in the pharma space should be tightened, the administrative department — department of pharmaceuticals (DoP) — has so far refrained from taking any stance.

"There are valid arguments on both sides. While affordability and accessibility of medicines may get adversely affected in the country if a cartel-like situation among multinationals erupts in future, we would wait for this study to shed more light on the probabilities to state whether this conjecture holds merit," a DoP official said. "Also Indian pharma companies have been aggressive in acquiring firms overseas. We must evaluate if our drift towards such protectionist measure can backfire when other economies decide to retaliate. However, we would firm up our position only after a thorough look at findings of the study," the official added.

The health ministry is keen on placing a ceiling on the FDI limit in the pharma sector and putting them under the FIPB route. Citing a public health angle, the ministry argues that as increasingly reins of management control of Indian drug manufacturing firms pass on to the multinationals and their market share in domestic pharma space increases, the current regime of affordable drugs may get endangered. According to officials present in the inter-ministerial deliberations, the finance ministry is objecting to any proposed changes in the existing FDI policy. Sources told *FE* that DIPP, which was earlier arguing for FIPB route for foreign investment in both brownfield and greenfield ventures in the sector, has eventually diluted its stance. It is now favouring FIBP route for foreign investment in case of acquisitions or brownfield while it has no objections if greenfield projects continue under the automatic route.

There have been a spree of acquisitions in the last few years wherein MNCs have bought controlling stake in domestic pharma firms. Japanese firm Daiichi Sankyo-Ranbaxy Labs, US firm Abbott-Piramal Healthcare, French firm Sanofi Aventis-Shantha Biotech are cases in point.

ENERGY PILLS

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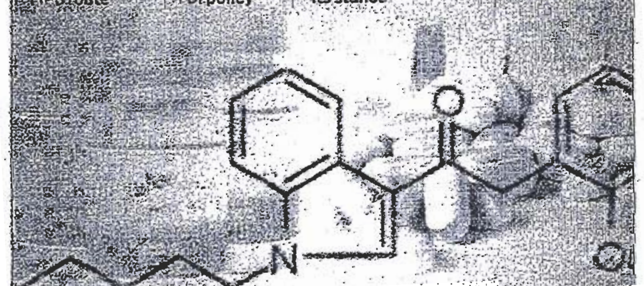

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