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PHARMA SECTOR

New rules may help recover research funds

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MUMBAI

India may tweak laws to recover public funds utilized by local pharma firms for research and development (R&D) if promoters sell a significant stake or business to foreign companies.

It will be essentially to check the transfer of benefits of publicly funded research to overseas firms, said two persons familiar with the draft proposal.

The move comes in the wake of a changing ownership pattern in domestic drug companies through merger and acquisition deals, mostly by foreign companies.

The government is part funding R&D by local drug firms by way of various tax incentives, including income-tax deduction, interest-free loans and several R&D grants by departments of science and technology, biotechnology and pharmaceuticals.

"The purpose of government funding to research works by local drug firms is to encourage development of newer drugs and other pharma technologies for the benefit of the local healthcare needs and also improve the country's capability in this area," said an official of the health department, which is pushing for the law along with the commerce ministry. "If it gets transferred to some foreign hands through a sudden takeover deal, the entire purpose goes for a toss." The official declined to be identified.

The department of industrial policy and promotion (DIPP), overseen by the commerce ministry, is discussing some key changes in the foreign direct investment rules for the pharmaceutical sector to have a say in the fast-changing local ownership in this sector.

"The recovery may not be necessarily in terms of money but in terms of the research assets or its rights by transferring them to the government, or maybe with a provision that will enable the government to own the technology and the intellectual property rights of the publicly funded innovation, if there is an ownership change in the company," said this official cited above.

> The move is aimed at checking the transfer of benefits of publicly funded research to overseas pharmaceutical companies

DIPP has commissioned a study on the most appropriate policy solutions to tackle the impact of losing local stake in the drug industry in domestic healthcare and access to cheap medicines.

Management consultancy **Ernst and Young Pvt. Ltd** is conducting the study.

"We have initiated the process of formulating some policies to handle the situation," DIPP joint secretary V. Bhaskar said on Friday.

The government spends at least ₹1,000 crore a year on drugs and medical research projects undertaken by private firms through several incentives and technology promotion schemes.

Almost all large, medium and small drug firms in the country use these schemes to push forward research projects, and many have also partnered with the government for technology and finance for large-scale research projects.

Research-focused drug firms also use income-tax concessions based on research expenditure.

"It is a peculiar situation in the country that a mere regulation on foreign direct investment or blocking the takeovers by foreign companies won't help resolve the issues in access to healthcare," said Muralidharan Nair, leader, life science and healthcare, Ernst and Young India.

The government may need to work on a policy framework that allows even foreign companies to come and invest in India to expand the drugs and healthcare industry and create an environment that will support building innovation capabilities locally, he said.