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Pharma FDI over 49% may need...

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There are reasons for the Big Pharma to be generous: the $12 billion Indian pharma market (IPM) is estimated to add another $40 billion to it in the next five years at a time when the annual growth rate in the developed market is around 1%; with scores of US-FDA approved plants in India, India could also be a manufacturing base for exports to the low-income countries.

"The acquisitions have been and would be extortionately priced. Given the fact that India's smaller drug companies are unlikely to grow fast enough to promptly occupy the space ceded by their bigger brothers bought over by the Big Pharma, the trend has serious implications for the Indian drug market," said a government official, asking not to be quoted.

Sources say that consulting firm Ernst & Young, which has been given the mandate to submit a report on the issue to the government, would likely build its arguments around the need to maintain 100% FDI in the segment, provided the government brings in enough riders to ensure the investment suits the domestic market and helps keep prices affordable to the masses. The MNCs' interest in Indian drug companies and the acquisitions they have carried out so far have created a growing concern, especially in three major areas.

One fear is that such takeovers could lead to an 'oligopolistic market' where a few companies will be in a position to decide the prices of medicines. Second, if large Indian companies having the wherewithal to replicate patented molecules are taken over by the MNCs, the 'oligopolistic' situation thus created and being strengthened by the exclusivity of products through product patent rights, will severely limit the power of the government to face the challenge of public health by granting compulsory licenses.

Third, in such a situation, MNCs could well decide to sell only the high priced patented and branded generic drugs rather than the cheaper essential drugs, pushing up the drug prices and causing inconvenience to patients.

Tapan J Ray, director general, Organisation of Pharmaceutical Producers of India (OPPI), a group representing MNC pharma firms in India, however, argues that such an oligopolistic scenario is not bound to arise, since the Indian pharmaceutical market has over 23,000 players and around 60,000 brands (source: IMS 2010). "Even after all the recent acquisition, the top ranked pharmaceutical company of India - Abbott, enjoys a market share of just 6.15% (source: AIOCD/AWACS, February 2011). Even the Top 10 groups of companies (each belonging to the same promoter group though different and not the individual companies) contribute just around 40% of the IPM," Ray argues.

The government, however, is concerned that acquisitions of large Indian drug companies could leave small companies in the lurch. The negative impact on India's small industries and the dependence on imports of bulk drugs from China are also issues before it.

According to DG Shah, CEO, Vision Consulting Group, "These acquisitions should be viewed in the context of the dynamics of industry. Sell-out by two or three more large companies will create immense pressures on others to follow suit. It is incorrect to assume that once big ones are taken over, smaller ones will replace them in the domestic market." "Those who do not sell out may reduce themselves to contract manufacturing for the global pharmaceutical companies," he adds.

OPPI's Ray believes that it is unrealistic to prevent the promoters of domestic pharma firms from selling when the prices offered are lucrative. "The market competition is extremely fierce in India with each branded generic/generic drug having not less than 50 60 competitors within t same chemical compound.

Moreover, 100% of the IPM price regulated by the gover ment, around 20% under co based price control and the b ance 80% is under stringe price monitoring mechanism says he. In an environment li this, the very thought of any r al threat to public health inte est due to irresponsible pricin will sound very harsh even the government's own pri regulator, which has co tributed in making the me cine prices in India cheap than even neighbouring cou tries like Bangladesh, Pakista and Sri Lanka, he adds.

Many independent analys however, don't subscribe to th view, as they reckon that pri control, as it exists today, hardly effective in making meaningful difference to t healthcare expenses of the lo income population. The span price control is inadequate a newer drugs, including impo ed ones, that are increasing prescribed by factors are o side the purview of contro they say.