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Pharma FDI cap may be cut to 49%

Ministerial Group Moves Proposal, Plan Panel To Review As MNCs Protest

Sidhartha | TNN

New Delhi: An inter-ministerial group (IMG) has suggested that foreign direct investment (FDI) cap in existing pharmaceutical ventures be lowered to 49% from 100% to check takeover of local companies by multinationals, a move which has now been referred for a second opinion to the Planning Commission amid protests from foreign players.

Sources in the government told TOI the panel comprising representatives from the health ministry and pharmaceuticals and industry departments had recommended that in case of brownfield ventures, not only should FDI be capped but these investments should also be approved by the government. At present, companies only need to inform RBI if they are investing in an Indian company. The panel, set up following protests from the domestic industry, has said that the present system of 100% FDI through the automatic route be retained for greenfield ventures. This is the first instance of the government reducing the sectoral FDI ceiling to protect domestic interest groups—something that it had refrained from doing in the first 20 years of reforms though there was a strong demand from the pro-swadeshi lobby.

The decision in this case has been triggered by concerns that the government would be unable to pursue its policy of affordable medicine and may find it tough to use manufacturing facilities in the country to cope with epidemics and health emergency. In recent years, several Indian pharma companies have been acquired by global giants. The list includes Japan's Daiichi acquiring control of

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Ranbaxy, the stake sale by the Piramals to Abbot, acquisition of Shanta Biotech by Sanofi Aventis, Orchid Chemicals by US-based Hospira and Matrix Labs by Mylan Inc. Though the committee's decision, which has also been conveyed to the finance ministry, came several weeks ago, sources said it was surprising that the matter was referred to the Planning Commission when it is neither involved in FDI policy formulation nor is it entrusted with approvals. Sections within the government also hinted at the possibility of pharma multinationals lobbying with pro-reform elements within UPA to stall the proposal.

When asked, Planning Commission deputy chairman Montek Singh Ahluwalia told TOI that the move to review IMG's decision followed discussions in the Cabinet. He said a view was yet to emerge and the issue was only being discussed by a committee to be headed by plan panel member Arun Maira. Sources within the government, who complained of delay in decision making, said Maira, the former India head of Boston Consulting Group, was entrusted with the task nearly two months ago but is yet to hold a meeting. Novartis president Ranjit Shahani, who is president of the OPPI, a lobby group representing multinational drug companies, termed the proposal "retrograde" though he confirmed meeting functionaries in ministries of health, commerce and the Planning Commission for what he termed "advocacy". "It (a cut in FDI cap) will have a chilling effect on FDI in the country," he said. "FDI should not stand for funds deserting India."

OPPI has argued that the government has tools available to address concerns raised by domestic players and civil society groups. Indian players have a different take. Indian Pharmaceutical Alliance secretary general D G Shah said in 2001, when the government issued a press note allowing 100% FDI under the automatic route, it had put in place two conditions related to transfer of technology and investment in manufacturing.

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