Health Ministry wants FDI safeguards to keep drug prices low

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Policy allowing full FDI in pharmaceutical sector is under review following fears about the impact of takeovers on drug industry

Worried that the trend of multinational companies taking over Indian pharmaceutical firms will undermine the government's efforts at making the generic version of drugs available at affordable prices, the Health Ministry wants safeguards to be built into the Foreign Direct Investment process.

India today allows 100 per cent FDI in the pharmaceutical sector, but the policy is being reviewed in the wake of fears about the impact of ‘brownfield' investments — whereby foreign companies merely take over an already existing Indian company — on the future of the Indian drug industry.

As many as 61 drugs worth $80 billion are likely to go off patent in the U.S. between 2011 and 2013, making it possible for Indian companies to produce cheaper generic versions. But the Health Ministry fears the takeover of these domestic companies by MNCs would lead to essential medicines becoming costlier, thus impacting public health programmes, including the universal immunisation programme.

Keeping in view the need to exercise a certain degree of supervision over takeovers, the Ministry has recommended that prior approval of the Foreign Investment Promotion Board (FIPB) be made mandatory. And while they are not asking for a lowering of the permissible FDI, sources in the Ministry told *The Hindu* that steps should be taken to channel foreign investment to green-field projects.

Major takeovers

Between 2006 and 2010, six major Indian companies have been taken over by MNCs, including Matrix Lab by Mylan, Dabur Pharma by Fresenius Kabi, Ranbaxy Labs by Daiichi Sankyo, Shanta Biotech (Sanofi Aventis), Orchid Chemicals (Hospira) and Piramal Healthcare (Abbott). Since 2001, when 100 per cent FDI was allowed in the sector, only 10 per cent of foreign investment has gone to green-field ventures.

“The takeovers and mergers by multinational pharmaceutical companies of perhaps the most important Indian generic companies with the technological capacity to produce medicines and vaccines for the developing world are, in the long run, likely to impact the focus of what Indian companies produce and for whom,” says Leena Menghaneym, adviser, International Treatment Prepared Coalition-India.

The MNC takeover of generic manufacturers will further orient them away from the developing country markets, thus reducing the availability of drugs in low-income countries in the future, she argues. Indian companies merged or taken over are unlikely to produce low-cost generic drugs that will compete with their parent companies patented or brand-name medicines.

A high-level committee, headed by Planning Commission member Arun Maira, has already been looking into all aspects of the FDI policy relevant to the pharmaceutical sector.

At the Union government's request, Ernst & Young is also conducting a study on the impact of the recent takeover of Indian pharmaceutical companies, and its report is likely to be placed before the Economic Advisory Council to the Prime Minister.

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