Finance ministry asked not to clear pharma FDI proposals

The commerce ministry's nodal agency for foreign direct investment policy has sent a formal communication to the finance ministry asking it not to clear FDI proposals in pharmaceutical sector after the Foreign Investment Promotion Board brushed aside its informal request at its last meeting.

The department of industrial policy and promotion (DIPP) in a single-sentence letter to FIPB said that no FDI proposals be taken up for clearance as it was reviewing the FDI policy for the sector and all proposals cleared at the last meeting of the board be deferred, a person privy to the development told ET.

The move threatens to bring foreign direct investment into the sector to a standstill that had only begun to see activity after Prime Minister Manmohan Singh himself endorsed policy changes to ensure that big acquisitions of domestic drug companies by multinationals did not deny cheap drugs to Indians. Four FDI proposals cleared in the last FIPB meet including those of Mylan Laboratories and Medreich face uncertain fate now as the DIPP review could throw up new issues. DIPP representative at the last FIPB meeting had objected to the proposals, but the board cleared them in absence of any formal request or valid reason for opposition.

The move comes at a time when Singh and finance minister P Chidambaram have been touring the world, promising stable policy regime to attract investments into the country and check India's widening current account deficit pegged at 5% in 2012-13.

The country had opened its pharmaceutical sector to 100% FDI via the automatic approval route in 2002, but last year the government had made a distinction between greenfield projects and brownfield ones following fears that Indians will be denied cheap medicines if multinational continued to buy big domestic companies.

All brownfield investments in the existing Indian drug companies were put on the approval route—they have to be cleared by FIPB—and the government said conditions could be imposed on the foreign acquirer to ensure that the company continued to produce essential drugs. The current FDI policy states that the "government may incorporate appropriate conditions for FDI in brownfield cases, at the time of granting approval", giving FIPB powers to build these safeguards when it approves an investment proposal. Since these conditions apply to all brownfield investments even small investment in an existing firm have to meet the new norms.

The DIPP had favoured allowing only 49% FDI in the sector earlier and seems to have some fresh concerns about allowing FDI in the sector. The department is yet to incorporate the conditions approved by the prime minister at a meeting in December last.

Foreign direct investment in an existing pharmaceuticals company now requires FIPB approval.

In 2008, Daiichi Sankyo of Japan had bought out the country's largest drug maker Ranbaxy or $4.6 billion. US-based Abbot Laboratories had acquired Piramal Health Care's domestic business for $3.7 billion. Another US firm Mylan bought Matrix Lab while Singapore's Fresenius acquired Dabur Pharma. France's Sanofi Aventis bought Shanta Biotech and US-based Hospira bought Orchid Chemicals.

(Economic Times)