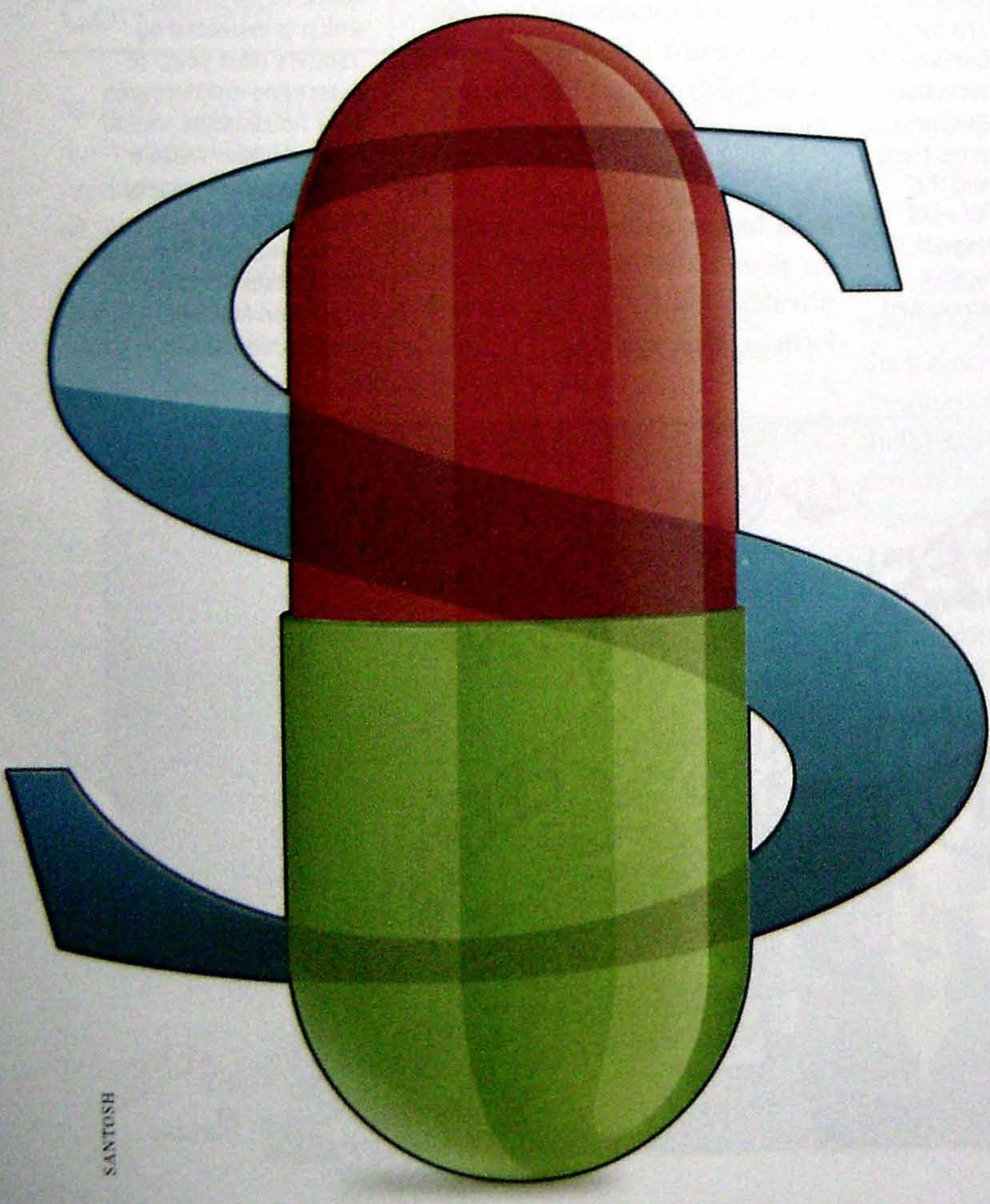
FOCUS

Wrong Prescription

Providing access to quality health care should be the real concern, not the perceived impact of FDI on drug prices, says G.V. PRASAD



SANTOSH

Recently, sections of the government called for curbs on foreign companies investing in or buying Indian pharmaceutical companies out of concern over a possible rise in drug prices. The government is rightly concerned about prices, given the large population that will be impacted. However, one needs to consider medicine prices in India, and whether controlling foreign direct investment, or FDI, in pharmaceuticals will result in lower prices. We should also analyse if infusion of FDI will lead to higher prices, as well as what the government's focus should be to ensure affordable health care for our citizens.

Medicine prices in India are among the lowest in the world. This is aided by a vibrant pharmaceutical industry and a combination of price controls and intense competition. Indian companies are recognised as the lowest-cost suppliers of generic drugs to world markets, and have built strong capabilities in all parts of the value chain. With such a strong domestic industry, I do not see how the entry of international companies will lead to higher prices. In fact, FDI will further strengthen our industry and also bring in products of original research more rapidly into India. Higher prices of patented drugs are a strong possibility but this is in no way related to FDI. However, the government has existing levers such as price control to bring down prices of patented drugs. The government can also invoke the compulsory licensing route to create alternative sources.

FDI and the buyouts of Indian pharma companies by their global counterparts will not result in monopolies because of the highly fragmented nature of the industry and the relatively low entry barriers. Moreover, in an era when Indian companies have grown globally and are acquiring companies in markets such as the United States and Europe, it is unfair to deny global companies the right to do the same in India.

The bigger challenge is access to affordable and quality health care, which is constrained by the lack of health care infrastructure as well as a government-backed medicare system. This is a huge concern especially in the country's rural belts. Statistics show that over 65 per cent of India's population has no easy access to quality health care. Clearly, more investment as well as operating budgets are needed. Private-public partnerships to deliver affordable health care are also an alternative.

Food inflation grew from 5.6 per cent in 2008 to 14.4 per cent in 2010. In the same period, the rate of increase in drug prices came come down from 1.1 per cent to 0.5 per cent, according to data from the Centre for Monitoring Indian Economy. Around 35 per cent of our population lives below the poverty line and cannot afford any expenditure on medicines. Therefore, bringing more medicines under price control may not be an effective solution to increase access.

An integrated approach is required to bring about improved access to qualified doctors, diagnostics and hospitals with adequate price monitoring mechanisms. In this regard, innovative schemes such as Arogyasri in Andhra Pradesh, a public-private health care initiative for the state's poor, are noteworthy. Arogyasri is an insurance scheme which covers hospitalisation and treatment expenses up to ₹1.50 lakh. The government pays the insurance premiums and health care is delivered by private and government hospitals. Higher volumes help bring down treatment costs.

Schemes like Arogyasri are limited to a few states and need to be expanded to cover the entire country. The government should also make health insurance more popular for populations which are not covered by free schemes. For instance, affordable health insurance must be made an important part of employers' obligations. Besides, effective scale-up and utilisation of funding available to government agencies to provide out-patient coverage to low-income groups will also make a significant difference.

The government's focus, then, should not be on the perceived problems of FDI, but rather on the need to provide quality health care. Competition will take care of prices.

(The author is Vice Chairman and CEO of Dr Reddy's Laboratories)

PRASAD'S TAKE

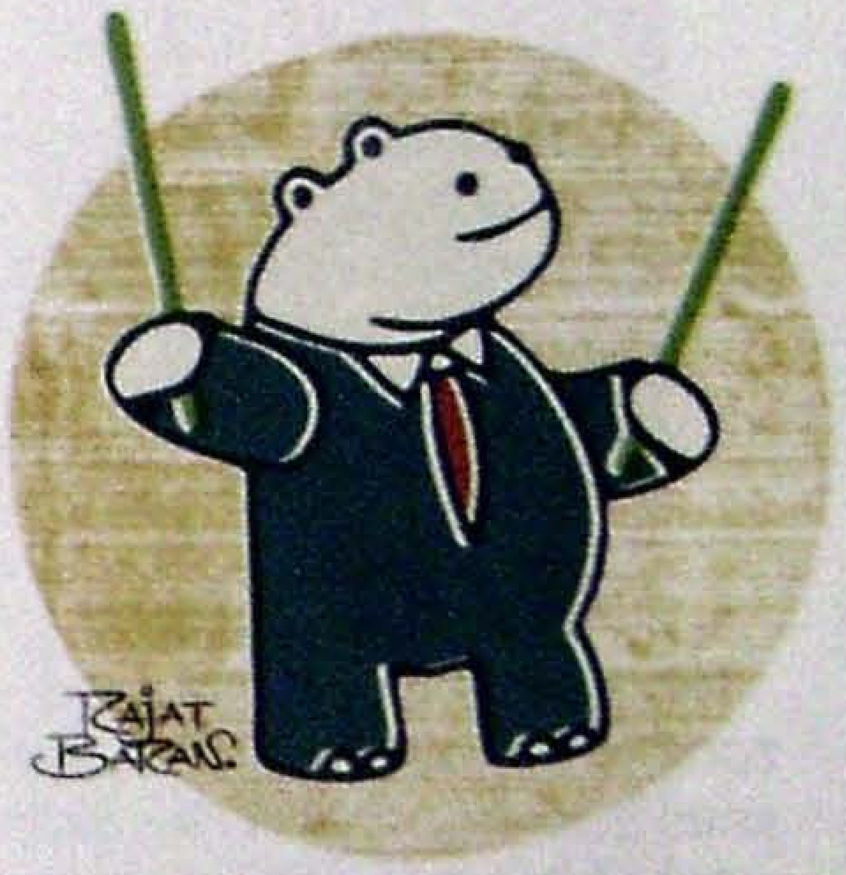
India has a strong and vibrant domestic pharma industry

Infusion of FDI will not necessarily lead to higher prices of medicines

The government's focus should be to ensure affordable and quality health care for all citizens

This requires an integrated approach as well as emphasis on public-private initiatives

WORDSMITH
(NEW WORDS IN BUSINESS)



HiPPO

What it means:
In workplaces, the Highest Paid Person's Opinion, or HiPPO, becomes the deciding factor in official discussions.

Origin:
HiPPO's popularity has coincided with the era of consultancy and MNCs and the need to get a global head's go-ahead on local business opportunities.

Usage:
"Are we ready to present this for the HiPPO?"