

'API package has led to some hope but government involvement is essential ... Policy shift has to be bold and sustained'

India's heavily dependent on China for active pharmaceutical ingredients (APIs), the main ingredient in medicines, triggering a call to incentivise domestic industry. Satish Reddy, president of Indian Pharmaceutical Alliance and chairman of Dr Reddy's Laboratories, speaks to Sanjiv Shankaran on the solution.

■ **India was fairly self-sufficient in APIs 25 years ago. Why did the situation change?**

There were two or three factors. First, price control caused the trigger. DPCO [Drug Price Control Orders] was a cost-based pricing control order which included bulk drug imports. This led to an erosion of profits because government picked the lowest cost. When Chinese imports started we were unable to compete. Second is the China factor. China, at that point of time, got technology from Indian companies that were offering consultancy, and they were able to produce at scale and thereby low cost. The cost at which they were producing was incentivised by their government through capital subsidies. This drove us out of the market. Most of us decided to import.

■ **Currently do most of our antibiotic APIs come from China?**

Absolutely. Take penicillin, for example. It's capital intensive to make and is produced at a large scale. When China started to produce it at a large scale, most of our companies, including public sector enterprises, got out of the business. Our companies are now looking at high value products. They have given up

space in large volume products to China.

■ **Do IPA's (industry body) representations to the government mainly revolve around facilities to compete on costs?**

We are saying at this point of time if a policy shift has to be made, it has to be bold and sustained. We have to compete at scale and be competitive. What did we ask for? Some kind of production linked tax incentives to help companies get in. If there is lower cost access to capital it will help.

We asked for infrastructure investment from the government. An industrial park, which involves land and utilities such as a common effluent treatment plant will be attractive in terms

of companies wanting to invest and build on scale. The government has announced the policy but now it has to be implemented with details.

■ **How are we placed in making intermediates (building blocks of APIs)?**

This is an important point because there are key starting materials and intermediates which we import from China in large quantities. If we have to become more self-sufficient these things have to be done on a much larger scale. The advantage of Indian industry was that it was a fully integrated chain and at a later point of time when we ceded space on APIs, we also ceded space on intermediates and key starting materials. We need to get that competitive edge back to India.

■ **It's not really feasible to be self-sufficient in the entire chain, is it?**

Correct. All I'm saying is it needs a sustained effort. The policy level now is for domestic production and consumption. Now, if we need to do this on a very large scale, the policy has to cover a wider range. That's what we are asking for.

■ **What are the most critical policy needs to revive the API industry?**

In terms of support, government needs to look at making certain issues concerning ease of doing business much better. An example is environmental clearance issues. This has always been a bottleneck because of a maze of approvals required from the Centre as well states for a new project. In terms of getting public hearing through a pollution board certificate, there are a whole host of things which can take

anywhere between 18-24 months. And the plant itself, about 18-24 months.

Most of the essential medicines are under price control. And price control is market based; it's not the draconian cost-based price control of the past. Here we are asking for more flexibility in pricing. We're not saying remove them. The top four things would be incentives, access to low cost capital, ease of doing business especially in environmental clearances, and reforms in price control.

■ **Hasn't China tightened enforcement of environmental regulations?**

They are two different issues. The key point for China becoming competitive is scale. Yes, they were flouting environmental norms. The government in China really clamped down in early 2018. That's when most units shut down and there was an increase in prices.

Most of our API companies have invested to comply with environmental norms. The reason we are asking for industrial parks and to make everything inbuilt is to make sure we don't have issues that China had. You have standards and treatment of effluents in industrial parks so that companies can invest in technology and make sure they're more competitive on cost.

■ **What feedback are you getting on the opportunity in APIs?**

The package has led to some hope. It will attract investment. It's contingent on two or three factors. The involvement of government is essential. The industrial parks involve central and state governments.

Q&A

