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Chidambaram bats for biotech

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After disappointing the biotech industry last year, Finance Minister Palaniappan Chidambaram has more than made up for it by batting strongly for this industry in the Union Budget for 2007-08. He has unveiled a series of measures to boost different sectors of the biotech industry, extended some of the concessions which would have lapsed within a month and recognized its potential for valuable contributions in the near future.

What is remarkable is biotech is just among of the few industries, which has been given special attention in a year when the finance minister chose not to be too friendly with the general industry. His rationale: the overall economic climate with 9 percent growth should take care of the demands of most sections of the industry.

No wonder biotech industry leaders have heartily welcomed the finance minister's announcements. Of course, the Department of Biotechnology (DBT) has pitched hard for the biotech sector with both Kapil Sibal, the S&T minister, and MK Bhan, secretary, DBT, and acting head of CSIR, preparing the groundwork for catching the finance minister's attention in time. And industry association, ABLE, and BioSpectrum have played their part by collating the industry demands and bringing it to the notice of the budget makers three months ago itself.

Of course, there are two major negatives, which will impact the biotech industry sector adversely in the coming years. First, the levy of minimum alternate tax (MAT) has the potential to bring many biotech companies, which have book profits that are set off against R&D related tax exemptions into the tax net. Two, the fringe benefit tax (FBT) will affect the biotech sector which has just started to grant ESOPs to retain talent and incentivize key employees as the start-ups struggle to find their feet in the market place.

Of course, as the finance minister explained, one has to wait for the detailed guidelines on the FBT on ESOPs for a full picture.

Here is a sample of the comments from industry leaders:

MK Bhan, secretary, DBT

The Ministry of Science and Technology is very appreciative for the push to innovation and new product development in the budget. Many existing exemptions have been extended and several new concessions have been granted to the biotech industry. We are indeed grateful. The orientation is rightly for innovation and discovery as it should have been. We appreciate what has been granted and like the insight behind the strategy to push discovery and innovation.

Kiran Mazumdar-Shaw, CMD, Biocon

"This year, the biotechnology sector has received the finance minister's attention. He has announced incentives for innovation and research, development and growth and manufacturing. By passing on tax benefits to VCs investing in biotech, he has created a positive entrepreneurial environment."

KK Narayanan, president, ABLE, and MD, Metahelix

Measures such as the extension of the weighted average tax exemption on R&D investment, service tax exemption for technology business incubators and pass-on direct tax benefits to VCs investing in biotech and related technology sectors such as nanotechnology, seed research and development, drug discovery and discovery of NCEs (New Chemical Entities), will go a long way in providing the much needed support to innovation in this sector Malvinder Singh, chairman, MD & CEO, Ranbaxy Laboratories.

I am extremely pleased that the finance minister has extended the incentive scheme for pharmaceuticals. This will enable vital research work to continue within the country, in a stable environment and will help to deliver a sustainable India advantage in this sunrise sector. Overall the budget provides impetus for inclusive growth by targeting areas in agriculture, education and healthcare.

Utkarsh Palnitkar, head (life sciences), Ernst & Young

It is heartening to note the growing emphasis on life sciences in Budget declarations over successive years. However, the gap between industry expectations and that granted continues to remain.

Budget 2007-08 is a welcome step in this direction and would be remembered for its focus on R&D. It has put in place incentives to promote entrepreneurship with service tax exemption on venture capital investments in technology incubators and on incubates (whose turnover is less than Rs 50 lakh). In addition, extension of period of Sec 35 (2AB) on weighted deduction on expenditures to five years is a welcome move. This will enable India to attract substantial investment for setting up R&D facilities.

Bhavesh Patel, MD, Marck Biosciences

For the pharma sector, I believe that this is a good Budget especially with the government encouraging research and development through extending the concessional rate of five percent duty to all research institutions, which was previously restricted to only public-funded research institutions. This will help Indian companies bring better products to end-users. Also pharmaceuticals being a capital intensive industry, the reduction in duty from 7.5 percent to 5 percent for specified machinery will help in gradual upgradation and advancement in technology. One disappointment I feel is that the pharma industry was expecting a cut in excise duty, which would have gone a long way in fulfilling the social cause of providing low cost drugs.

Glenn Saldanha, CEO & MD, Glenmark Pharmaceuticals

Given that the pharma industry is one of the growth sectors for the Indian economy and that India is now respecting IPR, which would create challenges for Indian companies in the future, we were hoping there would be significant incentives to stimulate Indian R&D. However, while we expected more, we are glad that the R&D 150 percent tax incentive will continue for an additional five years.

Dr Swati Piramal, director, Nicholas Piramal India

Budget 2007-2008 is a good year for the pharma sector. Weighted deduction under Section 35 (2A,B) for 150 percent is continued for next five years for approved in-house R&D facilities of industries in the BioPharma sector. This is a very positive development for increasing investment. Reducing service tax on clinical trials, clarification of FBT on free samples, encouragement of venture capital, funding in biotechnology and NCE research are very positive steps. Increased allocation in the healthcare has been a long awaited move. Increased spending on TB, malaria, HIV and vaccines is also important news.

Dr Kamal Sharma, MD, Lupin

The extension of R&D sops is welcome and will provide impetus to the pharma industry in particular to carry on the intensive R&D efforts. However, it would have helped to extend the scope of such sops to other allied and incidental activities pertaining to R&D, which strengthen intellectual property. The marginal increase in tax and the increase in dividend distribution tax will have some impact on the market sentiments of investors.

Ranjit Shahani, president, OPPI, and vice chairman and MD, Novartis India

The healthcare segment occupied significant amount of time and mindshare of the finance minister but given the yawning gap between the requirements for the current and future, the total allocation to this segment falls short of expectations. Healthcare is one of the biggest challenges our country faces. The National Rural Health Mission allocation has been increased from Rs 8,207 crore to Rs 9,947 crore. Given that 65 percent of the population or about 700 million people have no access to healthcare, this increase of Rs 1,740 crore is not adequate to make a real difference. The allocation of Rs 1,290 crore for elimination of polio and clinical trials exempted from service tax for new drugs are certainly welcome as is the removal of samples to doctors from the FBT ambit. Bringing HIV/AIDS out of the closet with budgetary allocations to achieve zero level of disease is again highly commendable but they still require significantly more resources.

However, the major need for bringing down transaction cost of the pharmaceutical products by reducing excise duty from 16 to 8 percent has once again been given the go-by. The tax exemption for R&D for five years up to 2012 should have been given up to 2017 i.e. for ten years since pharmaceutical discovery process is risky and lengthy and takes anywhere between 12 to15 years. Also, life-saving drugs should have been fully exempted from customs duty to reduce price. Finally, it is essential to harmonize our transfer pricing regulations with OECD countries and the current penalties of 100 to 300 percent for transfer pricing adjustments are too harsh and need to be reduced to international levels of up to 40 percent. So while the pharmaceutical industry completely missed the FM's radar last year, we were hoping to be compensated by a "Dream" pharmaceutical Budget this year but alas that was not to be.