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## Pharmaceutical industry: Duty incised to 5% on import of raw materials cut

### HIGH COST OF DOING BUSINESS INCLUDING COSTLY LAND, UTILITIES AND HIGH INTEREST RATES WAS SERIOUSLY HAMPERING THE GROWTH OF PHARMA-INDUSTRY.

The pharmaceutical sector has been permitted spur on import of raw materials and active ingredients on compromising rates of duty in the budget to strike the export potential existing in the world markets. The pharmaceutical industry has strongly represented it in the pre-budget consultation process and has gained much-needed incentives for developing exports from the country. Moreover, that high cost of doing business including costly land, utilities and high interest rates were seriously hampering the growth of pharma-industry. Some key incentives are also expected in the forthcoming Trade Policy 2009 that will be announced in the 3<sup>rd</sup> week of July. In the budget customs duties have been trimmed down from 25% and 10% to just 5% on import of 19 types of raw materials and active ingredients as well as chemicals. Customs duty on import of packing materials has been reduced from 25% or 20% to just 5% on import. Pharmaceutical products exports have been increasing from the last four years and it is expected that the industry would gear up its efforts for tapping export potential in regional as well as exports markets in African countries. Pharmaceutical industry has not been allowed increase in the price of medicines since 2001 when the government had permitted 3 percent increase in controlled medicines and 4 percent increase in de-controlled medicines.

## Industry summary

The Pakistani pharmaceutical industry has an estimated worth of \$1.9 billion and existing exports have reached \$125 million. The industry has set an export target of \$1 billion to be achieved by 2010. Pakistan to enlarge production base and saving at least \$ 3 billion worth of foreign exchange which would have otherwise spent on the import of medicines. This seems like a highly challenging task since recently the manufacturers have been facing problems from all directions. Rising cost of energy, raw materials and a weak rupee have all contributed to high production costs and squeezed the industries profit margins further. Pakistan was among those 35 countries which are self sufficient in medicines production. The pharma-industry indirectly employs about 1 billion people while its direct employees have touched 162,000 persons. The recent electricity crises has also harmfully affected the production of life saving medicine. However, the pharmaceutical manufacturers can take solace in the fact that patents worth billions of dollars are nearing expiration and will fuel growth in global generic market. The fast-deteriorating business environment especially for the pharmaceutical companies in the wake of high cost of production has been burdening the local pharma sector.

| Parameter                | Outlay   |
|--------------------------|----------|
| Share in GDP             | 0.8%     |
| Imports in US \$         | 388.6 mn |
| Exports in US\$          | 125.4 mn |
| No of Units              | 431      |
| Total investment in US\$ | 1.9 bn   |
| Share of MNC's           | 48%      |
| Share of local Co.s      | 52%      |

## Outlook measures

The government can play its role by ensuring uninterrupted electricity to the manufacturers, and taking steps to prevent such shortages in the future. Also, carve in duty is beneficial for industry growth which might sufficient effect on exports growth. Being one of the major indicators of economy, pharma industry has contributed positively so far and has somehow managed to increase production by a meager 1%. Additionally, in order to improve the growth rate of pharmaceutical exports government authorities should provide financial incentives and support schemes. These could range from local subsidies to cost sharing of foreign registrations. Authorities can also enter into MOUs with other countries in order to provide bilateral support to boost Pakistani exports. The health ministry can also play a vital role by helping emerging exporters to achieve world class Good Manufacturing Practices (GMP) standards and earn certifications by foreign regulatory agencies. With a low cost-base, world class manufacturing facilities and a duly placed intellectual property legislature the local manufacturers have all the right ingredients to become regional export leaders. The cut of import duty may reveal further recovery in industry and would help to increase rising opportunities for investment.