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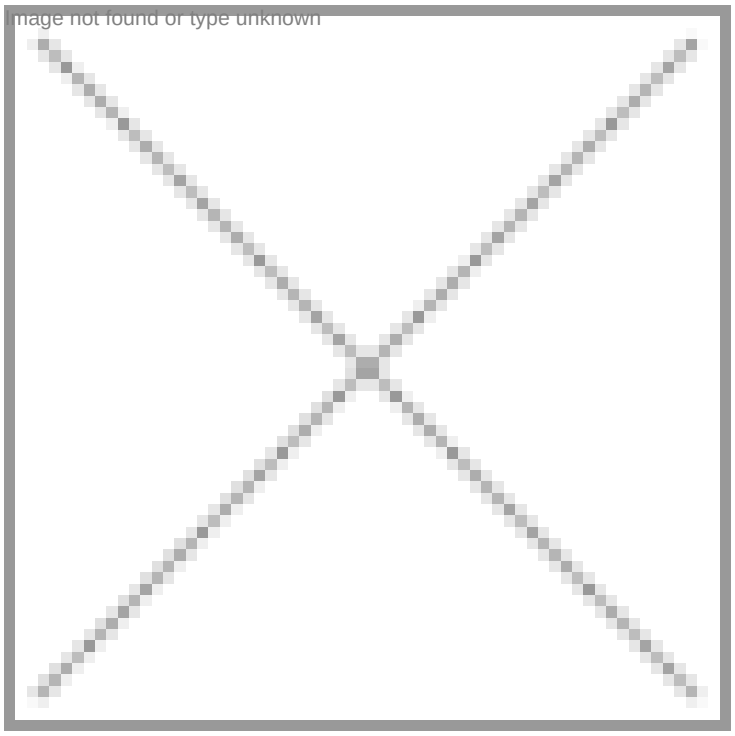

India to witness more pharma/biotech SEZs

The benefits offered by the government to the developer and the unit-holders through exemptions from all types of taxes and levies have proved to be most conducive and are the force behind private developers to set up and develop SEZs.

The Special Economic Zones (SEZs) Act came into force in India on February 10, 2006. Although the Indian government conceptualized SEZs way back in 2000, the absence of a SEZ Act was acting as a deterrent to the flow of private investments into the zones.

The philosophy behind SEZs globally is to attract more capital to enhance economic activity in the location and step up exports. Tax sops offered make it a profitable proposition to invest in such ventures. SEZs defined as "specifically delineated duty-free enclave and shall be deemed to be foreign territory for the purposes of trade operations and duties and tariffs," act as engines for export led economic growth in India.

The Board of Approval (BoA), Department of Commerce comprising officials from various ministries, cleared 148 of 166 proposals. The proposals cleared contained 75 that had already received approval in principle. The BoA, which met for the first time on March 17, 2006 after the notification of the SEZ rules in February, also set in motion a system of single-window clearance for setting up these SEZs. These SEZs are spread over 15 states and two union territories. The government is expecting that the SEZs would attract Rs 1,000 billion investment and generate 500,000 jobs in the next three years. The investments will convert over 40,000 hectares of the country's land into SEZs.

Among major SEZs given final clearance include Biocon's Rs 200-crore biotech project in Bangalore, two proposals by Jubilant Organosys for SEZs in Gujarat and Mysore.

Hemant Rajurkar, assistant engineer, Office of the Joint CEO (IT), Maharashtra Industrial Development Corporation, (MIDC), which received approval from BoA to set up Pharma/ biotech SEZs in Jalna, Aurangabad and Nanded said, "MIDC has been working on modalities on setting up the SEZs in pharma/ biotech areas. It is still at the drawing boards. So far the areas for these SEZs have been finalized."

Private/sector specific SEZs

As on March 31, 2006, there are 811 units in operation in the 8 functional SEZs in India. Investments by the units in these Zones are of the order of Rs 18,309 million.

The SEZ units have provided employment to about 1,00,650 people. Internationally, free zones have been "publicly" funded. In India, fiscal constraints are coming in way for the public funding for SEZs. The government has been encouraging participation of private players by offering regulatory and fiscal incentives in setting up SEZs. These SEZs also act as a center for establishing close global contact and thus bringing in fast globalization. The unit holders by remaining in contact with markets globally, add to the globalization growth.

"Now that the SEZ rules have been officially notified, it remains to be seen if the FDI trickle turns into a flood. For the same reason the likely perception of some industries is that sector-specific SEZs may in fact facilitate securing a significant increase in FDI. Further, the company involved in the setup of a SEZ may be able to better negotiate incentives from the government and hence enable the units within the SEZ to increase sector-specific trade with a clear focus. Many of the proposals floated for the biopharma industry have been submitted by large biotech and pharmaceutical companies such as Biocon and Ranbaxy. These companies are symbolic of the respective sectors in India and hence enhance credibility of the SEZ as well. The setting up of a sector specific SEZ may turn out to be an important component in the long-term strategy of the parent company," said Utkarsh Palnitkar, director, Health Sciences, Ernst & Young India.

He further said, "The existing generic SEZs are required to have a minimum continuous land size. However, such a requirement restricts the establishment of such SEZs to the outskirts of cities. Therefore it makes more sense for companies to create sector-specific SEZs, which are smaller and can be set up in the business districts. This not only optimizes operational costs such as logistics and transportation but also reduces related manpower costs. The sector-specific SEZs may offer infrastructure required by the biotech and pharmaceutical companies such as R&D facilities (wet labs), space for agro-biotech and relevant international linkages with biotech institutions and companies. Further the parent company will have enhanced control on admission of companies into the SEZs."

Sharing similar views, Prasant Biswal, CEO, International Biotech Park, Pune said, "The companies will now have a choice to select a location, whereas earlier they were bound to use the shared facilities with other companies. It will be an advantage for the companies to set up SEZ within their existing premises by which they can utilize their R&D and other facilities. By investing in sector specific SEZs, the private players can also reap the benefits of regulatory and fiscal incentives both as developers and as unit holders. It might emerge as a cluster as other companies can also utilize the resources for mutual benefits."

Expressing concern over realizing the objective of attracting more capital to enhance economic activity in the location through SEZs, Prasant Biswal said, "The sector-specific SEZs will mushroom in the coming years with more participation from private players so as to reap the benefits of both as developers and unit holders." Echoing a similar opinion, Utkarsh Palnitkar said, "We may witness emergence of more sector-specific SEZs that are mutually beneficial to the state governments and the mentor company."

Narayan Kulkarni

Australian life science industry shining

The market for Australian life science companies has grown significantly over the past five years, according to PricewaterhouseCoopers. At the beginning of CY01, 60 companies were listed on the Australian Sock Exchange (ASX) in the medical device, biotechnology and pharmaceutical development sectors. Now there are 111 companies with diverse technologies, ranging from the developers of antibacterial coatings derived from Australian seaweed to cardiac pump devices for patients with congestive heart failure. The market capitalization of these companies at the end of CY05 was more than $20 billion compared with about $11 billion five years ago.

Over the past five years life science companies (excluding the majors Cochlear, CSL and ResMed) have performed well, though their share prices have been volatile. During the five years from 2001 to 2005, the sector's value (excluding majors) increased by 58 per cent. The All Ordinaries performed strongly over the same period, gaining 49 percent.

The sector rallied strongly in early CY03 and there were 15 initial public offerings in the second half, but at year's end only nine companies were valued at more than $100 million. The out performance of a small number of stocks in CY03 contributed to the sector's subsequent volatility.

In CY05 there was an increase in the number of listed companies and the capitalization of individual companies became more dispersed, according to PricewaterhouseCoopers. In the first half there were more negative than positive performers, which pulled the sector down, while in the second half new companies emerged as strong performers. Pharmaxis, Mesoblast, Peplin and Biota made strong contributions in the second half. At the year's end, 15 companies were valued at more than $100 million.

PricewaterhouseCoopers views the change in the market over CY05 as a positive for investors, with more companies being rewarded for pushing towards the realization of their technology's potential.

Medical device companies Vs biotechnology and pharmaceutical developers

The number of listed medical device companies tripled over the period 2001 to 2005, from 10 to 30, while the number of pharmaceutical and biotechnology developers doubled to 79 during the same period.

Although both markets have increased considerably, the average capitalization for companies in the medical device sector (ex majors) has declined by 47 per cent while the average value of biotechnology and pharmaceutical developers has increased marginally, by7 percent.

Many medical device companies have come to market reliant on the commercialization of a single product. Typically medical devices require a shorter time to develop and commercialize than biotechnology and pharmaceutical research.

Keeping legal work local

Adelaide patent attorney firm Madderns has set up a life sciences team to attract work from South Australian biotechnology firms and laboratories.

After poaching biotech specialist Mark O'Donnell from Melbourne, the firm also hired doctors of science and legal experts for its seven-member team to compete with interstate and other Adelaide patent offices such as Phillips Ormonde Fitzpatrick.

About five patent attornies are based in Adelaide.

O'Donnell is an honours graduate in biochemistry from the University of Adelaide and has worked in the patent industry for almost 20 years.

Madderns senior partner Richard Catt said the aim was to work for clients who previously had looked interstate.

"A lot of the work's been going across the border," he said.

O'Donnell said some publicly listed companies and research centres were unaware of those elements of their work that could be legally protected, particularly with the different laws that apply in the US and in Europe.

Those markets were important for patent approval because they were home to the world's largest pharmaceutical companies.

"It's not uncommon for good intellectual property not to be fully appreciated by the innovator, or they might come to the conclusion that it's not protectable," O'Donnell said.

Areas such as stem-cell biology immunology, bioinformatics or databases of biological information such as genome sequencing, and nanotechnology were all important areas needing patent expertise, he said.

Patents have become the lifeblood of listed companies such as Adelaide's Bionomics which has patents and patent applications relating to more than 600 genes in the diagnosis and treatment of central nervous system disorders such as epilepsy and anxiety.

Sydney company Biota is suing its marketing partner, GlaxoSmithKline, over intellectual property of its flu drug, Relenza, which Biota developed and is entitled to royalties on sales.

The company is claiming damages of up to $430 million.

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