

Sixty-Eighth Annual General Meeting – Tuesday, 7 September 2004

Address by **Dr. Y. K. Hamied**

Chairman and Managing Director

Ladies and Gentlemen,

On the eve of the 70th year of your Company, I am glad to welcome you all to the 68th Annual General Meeting of Cipla. With your permission, I take as read the Directors' Report and the Audited Statement of Accounts for the year ended March 31, 2004.

Every year, for the past 33 years, I have looked forward to this opportunity to be with you all and to brief you about your Company's performance and progress. This year is of special significance for a number of reasons. It has been an eventful year for the world, our country and our Company. Through the media, you are aware of what has been transpiring worldwide. In India, a new government has been formed, but it is still too early to tell as to how they are performing. To date however, measures to fulfill the overall expectations of the Industry have not been forthcoming.

The last financial year, 2003-2004 was a year of several firsts for your Company. Cipla moved to the premier position in the IMS-ORG ranking of pharmaceutical companies in the country. Cipla is currently first in monthly sales, cumulative sales since January 2004 and moving annual sales total. This is the first time that a wholly Indian Company has achieved such an enviable position. If our founder, Dr. K. A. Hamied, were with us today he would have been a very proud and happy man.

We crossed an annual total income of over Rs.2000 crores, a figure that would have been unimaginable a few years ago. The quantum increase in our total income was over Rs.425 crores. This in itself was an extraordinary task as it was an increase of 27 percent over that of the previous year, as against the industry average of around 7-10 percent. We exceeded a figure of Rs.800 crores in our exports, placing us among the leading exporters of the country. Last year, we earned for the country a foreign exchange surplus equivalent to over Rs.500 crores. This places Cipla among the leaders in net foreign exchange earnings. Apart from this, for the first time, your Company's net profit after tax reached an all-time high of over Rs.300 crores.

You will be glad to know that we have maintained the momentum in the current year. For the five-month period ending August 31, 2004 we have maintained a growth rate of above 20 percent. We are confident of ending the current year also on a strong note, barring unforeseen setbacks due to factors beyond our control.

We are keenly awaiting the new government's stance on various issues pertaining to the pharmaceutical industry. Recently the government claimed success in its negotiations with the World Trade Organization on issues related to agricultural subsidies. According to media reports, the government has claimed that the country's interests have been adequately accommodated. Developed countries have reportedly committed to eliminate export subsidies and to reduce trade-distorting subsidies. We only hope that the government can be equally confident about protecting India's interest in medicine, now that product patents are likely to come in force in January 2005.

We are proud of our country's many great achievements in several fields. At the same time, it is beyond dispute that India has a permanent health crisis. The country's population is at an alarming 1.2 billion and still growing. The illness profile figures are frightening. There are 80 million people with cardiac problems, 60 million diabetics, 50 million asthmatics and 50 million with hepatitis B. One in every three Indians has latent T.B. The World Bank has estimated that by 2015, India will have 35 million HIV positive persons - approximately 50 percent of the world's estimated 75 million. Millions of our countrymen also lack access to life saving medications for many diseases that do not make the

headlines. It is also beyond dispute that intellectual property can only be a barrier to this access particularly for low and middle-income people who make up the majority of our population.

I have spoken at length on this very important subject every time I have addressed you in recent years, and I want to reiterate what I have said in the past. It is necessary to voice our concern at every opportunity. These concerns affect the entire nation and the silent millions who do not understand patents and intellectual property rights. All that our countrymen want is to be able to have access to affordable medicines that they need to survive and stay healthy.

The achievements of the indigenous pharmaceutical industry over the past few decades have been outstanding. From having a market share of below 30 percent in 1972, today the indigenous sector controls over 72 percent. However, all this is likely to be diluted by India's signing of the GATT/WTO agreement in 1995 and agreeing to adopt TRIPS by January 2005. Our government has unfortunately failed to appreciate the far-reaching implications of its action.

In the 1960s, prices of some drugs in India were among the highest in the world and the situation was totally monopolistic. The Indian masses were victims of this exploitation. For these very reasons, the Indian patent laws were changed in 1972 in the areas of health and food. We have to implement all reasonable safeguards to ensure that we do not revert back to the situation prevailing prior to 1972.

India should be free to formulate its own strategy and enact its own laws in our own national interest. While the inventor should be duly compensated and rewarded for his patented invention, no monopoly situation should be allowed. When the welfare of more than one billion people is at stake, we simply cannot afford monopolies. The Indian Patent Act is meant for the benefit of our nation. It is not an international act. No two countries have identical patent laws. In fact, Japan has changed its patent laws 45 times during the past 10 years to suit their own interests. In the overall interest of our nation, I again strongly urge our government to consider seriously the following suggestions, all of which could be made workable within the GATT/WTO/TRIPS framework.

a) There has to be a compulsory license provision or a license of right so that there is no monopoly situation in the areas of health and food. A suitable royalty clause should be incorporated for the benefit of the inventor. The government should have the freedom to grant automatic licenses of right for drugs required for the national health programme, like drugs for cancer, T.B., malaria, hepatitis, AIDS, etc.

b) The vexatious Exclusive Marketing Rights (EMR) clause should certainly not be accepted. This gives exclusivity to medicines patented between 1995 and 2004. EMR results in giving monopolies for drugs that are only covered by process patents. This defies all rationality.

c) During the life of a patent, companies should be permitted to manufacture and sell products under patent for R&D and educational purposes. Stockpiling prior to patent expiry to enable marketing immediately after patent expiry should be allowed. This is totally in line with the USA patent laws.

d) Importation of a patented product alone should not be considered as working of the patent. Only its manufacture within the country and within a stipulated time frame should be considered as working of the patent. Failing this, compulsory licensing or granting of a license of right must come into play.

e) Product patents on medicines should only be accepted for the basic molecule and not for other forms of the molecule or its formulations and combinations. If not, this would result in indirect extension of the patent life of the product in question, a practice known as evergreening.

We are at a crucial juncture in terms of health and the future implications of intellectual property rights. Let us decide our own destiny with nationalistic fervour and pride. Let us take the right course of action to see that our nation prospers. Let us not succumb to pressure from the

international community and mortgage away our nation's health.

Pricing is another area where government regulations have an important bearing on the pharmaceutical industry and our Company. The fact is that prices in India for quality medicines and drugs are currently among the lowest in the world. In spite of this, the government considers it necessary to regulate, monitor and control drug prices. If the government is serious about making available quality drugs at reasonable prices, the government should implement the following suggestions.

a) There are five public sector drug-manufacturing units under the Ministry of Chemicals and Fertilizers. These are: Indian Drugs and Pharmaceuticals Limited (IDPL), Hindustan Antibiotics Limited (HAL), Bengal Immunity Ltd. (BIL), Bengal Chemicals & Pharmaceuticals Limited (BCPL) and Smith Stanistreet Pharmaceuticals Ltd (SSPL). In addition, there are a number of pharmaceutical manufacturing units under the control of state governments, such as Goa Antibiotics Ltd., Karnataka Antibiotics Ltd. etc. Over the years, the government, both at the centre and the state level, has invested hundreds of crores of rupees in setting up these units and has spent large amounts in running them. As a matter of fact, the government is on record in parliament, stating that these public sector units have been incurring heavy losses.

b) Apart from this, the government research laboratories under CSIR, such as CDRI, NCL, etc. have a wealth of scientific knowledge and are staffed by highly qualified scientists. The government also has extensive distribution channels, such as primary health care centres, medical hospitals, ESIS and other public health institutions reaching every nook and corner of the country. No private company can match the reach and resources of the government's infrastructure.

c) All that the government needs to do is to put this infrastructure to work. Let the government laboratories share their know-how with the government factories that can produce and make available essential medicines through the government outlets at fair, reasonable and controlled prices. This will not only meet the objective of the drug price control order of providing essential medicines of good quality at most reasonable prices, but also make these public sector organisations economically viable.

d) This would compel the private sector to review its pricing to compete with the government units. By letting free and fair market forces rule product availability and pricing, the government would not only abide by the spirit of its pricing policy, but would also meet its overall social objective. We, as an industry, will be extremely happy to cooperate with the government in such a venture. This will definitely benefit millions of Indians, rather than any piece of legislation or bureaucratic control over the pharmaceutical industry.

Even without government intervention, with rapid advances in technology and increasing competition, market forces are sufficient to guarantee fair prices to the customer. Yet, if the government in its wisdom considers price control necessary, all we are asking for is openness, transparency, objectivity and accountability in its implementation. In the present liberalised era, the government should take the industry into confidence and make it a partner in progress.

Your Company is expanding its horizons. The major driving force is globalisation using India as the manufacturing base. We now have a presence in over 150 countries worldwide and our name continues to be a symbol synonymous with the highest level of quality and respectability. A few years ago, our exports constituted 10 percent of our total sales. Today, it exceeds 40 percent and will soon be in excess of Rs.1000 crores annually. Cipla has many strategic alliances and partnerships with leading pharmaceutical companies worldwide. A large number of newer products have been registered and more are in the process of being registered in several countries. By far, the regulated markets of the USA, European Union, South Africa, Australia, etc. offer the maximum opportunity for your Company.

In order to cater to the rising demand for Cipla products all over the world and within India, Cipla has considerably expanded its manufacturing base for both bulk drugs and drug formulations at various locations – Bangalore, Goa, Patalganga and Kurkumbh. We will start manufacturing operations in Baddi, Himachal Pradesh next year. Issues like patents and pricing are obstacles that hold the national pharmaceutical sector back when it is set to soar. In spite of these persistent frustrations, we as a Company try to maintain a positive outlook. This is evident in the

expansion of our manufacturing facilities and in our tireless quest for new markets.

Over the years much of the success of the Company is due to Research and Development. We spend over 3 percent of sales turnover in R&D and in quantum terms it amounts to over Rs.60 crores annually. Our efforts are concentrated on accountable and result-oriented projects.

Coming to the social obligations of your Company, you, our shareholders, are partners in Cipla's efforts to provide vital medicines at affordable prices, in particular those drugs relating to the treatment of HIV and AIDS. Cipla is currently exporting its anti-retroviral drugs to 90 countries and have built up an enviable reputation in many countries because of its humanitarian approach. Recently, Cipla once again reduced the prices of its anti-retroviral drugs in the domestic market by 25 to 35 percent. This was the ninth price reduction in the last four years. We will continue to increase our involvement in the formidable task to fight this pandemic. Apart from this, we are assisting many International agencies in combating malaria and some neglected diseases, such as *Kala Azar*. We continue to look after terminally ill cancer patients at the Cipla Palliative Care Centre in Pune and donate our medicines to many institutions within the country and abroad.

We are an Indian Company. We owe our success to Indian intellect and Indian endeavour. We are responsible corporate citizens. We recognise our obligations to the less privileged. Cipla has been involved in healing since 1935. On the threshold of 70, we are now better equipped to do more than ever before. We will continue to remain in the forefront of the pharmaceutical industry both in India and rest of the world. Your support and that of our directors, all employees, our associates and partners has resulted in your company's growth and progress. People are always valuable assets in any organisation and this is ultimately our true strength. Let us march together towards a healthier future.

As always, I wish you all the very best.

Thank you.