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Four calls for Trump's pharmaceutical tariffs

With 1 August fast approaching, we expect the Trump administration to announce pharmaceutical tariffs soon. We anticipate an initial tariff in the 10-25% range, with an announcement signalling a substantially higher rate to follow within 12 to 18 months. Below, we outline four key impacts that these tariffs could have on patients and the sector

We do not expect Trump to announce excessively high pharma tariffs, because the effects would be disastrous

1 US consumers will be hurt the most by the incoming tariffs

We expect the Trump administration to announce a tariff on pharmaceuticals before 1 August. If the instituted tariff is 25%, we believe prices for US consumers will gradually rise by 10-14%, as stockpiled medication slowly runs out.

This would mean that the price of commonly prescribed generic heart medication that sells for roughly $0.82 per pill would increase to $0.94 per pill. The same tariff would cause more complex and expensive generic cancer drugs to increase in price by $8,000-10,000 for a 24-week treatment. Both these calculations assume a 30% markup for the importing party and a 20% price hike on the exported medicine.

In this scenario, some tariff costs could be incurred by the exporter, which may not happen given how thin margins are for cheaper, generic drugs. At 25%, we expect there to be relatively few producers that avoid the US market altogether, so drug shortages will increase somewhat, but they should not spike.

It's therefore clear that a tariff would hurt consumers most of all, as they would feel the inflationary effect of tariffs directly when paying for prescriptions at the pharmacy and indirectly through higher insurance premiums. Lower-income households and the elderly, who rely on fixed incomes, would be disproportionately affected, as prescription drugs constitute a larger portion of their expenses.

2 Branded manufacturers will continue spending, while generic manufacturers stay put

On 22 July, AstraZeneca became the latest manufacturer of branded pharmaceuticals to announce increased investment in the US. The threat of tariffs has caused branded pharma companies to commit to more than $250bn in US investment over the next few years. We expect increasing investment in the US to continue for several reasons.

First, the US is responsible for more than 40% of global pharmaceutical sales, which means that branded pharma companies need to be present in the US. Second, American politicians want more control over pharmaceutical supply chains, which means both Democrats and Republicans want to stimulate medicine production on American soil. Third, fiscal policy has been tightened in smaller European economies over the past few years following Covid spending and international tax cooperation. These three things combined, in addition to the short time to market in the US, make the US a logical place to invest for branded pharma companies.

By comparison, generic companies will not increase their US investments. Their margins are, generally speaking, half the size of those of branded manufacturers, and they lack the pricing power that branded pharma companies have. In addition, the economies of scale in countries like India, for example, are not achievable in the US. Moreover, investment horizons for new manufacturing facilities are three to 10 years, at which point the political landscape could look very different. If very high tariffs do come into force, generic pharma companies will likely avoid the US market, leading to drug shortages.

3 A 200% tariff will not happen

Speaking of high tariffs, we do not expect a 200% blanket tariff (or anything close to it) to materialise, because the effects would be disastrous: US drug prices and shortages would soar. The most important drugs that would become scarce are low-cost, low-margin, generic and life-saving medications, such as common antibiotics (such as doxycycline), sterile injectables (like injectable chemotherapy agents), chronic medications (e.g. hydrocortisone and blood pressure medication), biosimilars and insulin. The US produces a relatively small share of these medications domestically.

In terms of prices, a 200% tariff on pharmaceutical imports could significantly increase US inflation. Prescription drugs make up 1.25% of CPI, and by extrapolating our estimated price effect of a 25% tariff, a 200% rise could increase CPI by roughly one percentage point – particularly when considering that pharmaceuticals are essential goods with inelastic demand, meaning price hikes are less likely to suppress consumer purchase volumes in the short term. Thus, much of the tariff cost would show up as pure price inflation rather than reduced consumption.

Beyond the direct effect on drug prices, there are secondary inflation effects to consider. If hospitals and clinics face higher costs for medications (e.g. chemotherapy drugs, surgical anaesthetics, etc.), they may raise the prices of medical services to compensate. This would feed into hospital services and overall healthcare inflation. Additionally, higher drug costs would increase health insurance costs, which are indirectly captured in CPI.

4 CDMOs and logistics providers will benefit

Although the effects of tariffs are negative for the American consumer, two parts of the pharmaceutical value chain will benefit: Contract Development Manufacturing Organisations (CDMOs) and logistics providers. CDMOs offer flexible manufacturing capacity that is in high demand right now because of the uncertainty surrounding tariffs. We expect this trend to continue and to see increasing M&A, investment and growth in this space over the next few months and years.

Logistics providers are also set to benefit, as enabling stockpiling is a key mitigation strategy for various pharma companies. As a result, these two subsectors are poised to play a critical role in the resilience of pharmaceutical supply chains.

Author

Diederik Stadig
Senior Economist, Healthcare & Technology
diederik.stadig@ing.com

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