

US pharma's innovation capacity threatened by Trump tariff uncertainty

America's pharmaceutical sector is facing huge uncertainty from the tariff threat, cuts at the US Department of Health, and a renewed focus on lowering drug prices. We don't think prices will fall, and companies will actually hold off on Research and Development spending. In fact, the sector's capacity to innovate is at risk



Donald Trump and US Secretary of Health and Human Services Robert F. Kennedy Jr

Trump is right: US drug prices are high

America's biggest pharmaceutical companies are worried. And there are reports that some are hastily stockpiling drugs and medication to mitigate what President Trump might do with tariffs on their industry.

And, let's be clear, we're still dealing with 'might'. On 12 May, during a press conference announcing his newest [executive order](#) targeting pharma, Trump stated that the United States effectively subsidises cheap drugs in other countries and that this constitutes an egregious imbalance. He is not wrong: the US is responsible for roughly 40% of pharmaceutical sales globally and has roughly 5% of the world's population. Trump also indicated that the US would start to pay roughly 70% less, and other countries would have to pay more for drugs.

We are confident that EU countries will not allow pass-through price increases because of policy changes in the US. But, just as a thought experiment: what if prices were to become comparable in the medium term? The US currently pays roughly threefold what other developed nations pay for pharmaceuticals. If margins stay the same, which is by no means a certainty, this would mean that prices in the rest of the world would increase by 80%, while prices in the US would decrease by 40% (and not the 70% that Trump mentioned).

In dollar terms, this would mean that the US would spend \$90 billion less on pharmaceuticals. As mentioned, this is highly unlikely, and in this scenario, the US market would lose some of its appeal, given lower prices, increased uncertainty and cuts to funding.

Prices are unlikely to fall as a result of his policies

However, we think that that executive order will not succeed in lowering drug prices; it lacks specifics on how lower prices will be achieved. It institutes a 30-day period during which pharmaceutical companies can voluntarily lower their drug prices. After this time, if companies do not lower their prices, the government can take several actions to force drug prices down. Among these is the US Department of Health and Human Services (HHS), guided by Robert F. Kennedy Jr., pursuing a most-favoured-nation (MFN) policy and increasing imports from other countries.

Tariffs are an inflationary pressure

Shares of many pharmaceutical companies have recovered after an initial drop, signalling that the market perhaps deems price decreases unlikely. Furthermore, Trump's previous plans to lower drug prices did not materialise. At the same time, budget cuts at the HHS have been announced and civil servants have already been made redundant, yet the order relies on the HHS's regulatory capacity to bring drug prices down.

The Administration aims to import more medication from abroad while reiterating its commitment to tariffs to encourage onshore pharmaceutical manufacturing. As we wrote previously, [these two goals conflict](#). Tariffs are an inflationary pressure that would make increased imports more unlikely and expensive. So, although US consumers pay higher prices for their medication than non-US consumers, we do not believe that a price decrease is likely, certainly not in the short term.

Cutting out the middlemen

What the order does do, once again, is to signal the Administration's commitment to get rid of 'middlemen' in the US healthcare system. Pharmacy benefit managers (PBMs) are, as [we signalled at the end of last year](#), a key policy priority for the Trump Administration. Trump stated during his press conference that his Administration will: "...cut out the middlemen and facilitate the direct sale of drugs at the most favoured nation price, directly to the American citizen." This would severely affect the business model of PBMs and create a margin squeeze in the middle of the value chain. Such a change seems more realistic and likely during Trump's time in office.

Should PBM margins be squeezed, this could offer opportunities for price decreases. However, in the current setup of the US healthcare system, this is by no means a certainty. There's more on that [here](#).

Current uncertainty threatens pharmaceutical innovation

The newest executive order adds additional uncertainty for a sector that is already likely to face import tariffs and will start to notice the effects of cuts at the HHS in the coming years. The proposed 26% budget cut (worth around \$33 billion) for the HHS will affect the innovative capacity of the sector. Budget cuts for research areas at the National Institutes of Health (NIH) will affect future innovation; there will be fewer grants awarded for new research initiatives. Research grants for commercially non-viable projects are an area in which the US plays a pivotal global role.

The current uncertainty will lead to less investment

In addition, we believe that the current uncertainty surrounding tariffs and supply chain disruptions will lead to fewer investments and R&D spending. As costs increase, and not everything can be passed through in prices, pharma companies will look at cutting costs further, and Research and Development are often the first target, hampering future innovation.

And who might benefit? China. The country's become increasingly important in terms of its global pipeline contribution for new drugs: its share increased to 27% in 2024, up from roughly 4% in 2014.

In short, if the Trump Administration continues to create uncertainty, the United States may well find itself confronting the very outcome it sought to avoid.

Author

Diederik Stadig

Senior Economist, Healthcare & Technology

diederik.stadig@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10

Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.