

US drug prices and shortages set to rise despite Trump's latest executive order

The Trump administration has declared the lack of medicine production in the US a national security threat, which means tariffs on the pharmaceutical sector are very likely. Even though Trump signed a new executive order with the aim of bringing prices down, we believe both prices and shortages will increase if tariffs on the sector are imposed



The goal of bringing the production of more generic drugs back to the US might be understandable, but tariffs are unlikely to provide the best route to achieving it

What's new?

US President Donald Trump signed a new [executive order](#) on 15 April aimed at bringing US drug prices down. Its objective was to do so by proposing many different parts of the US healthcare value chain. Most importantly, it levels the playing field for pills and injectables, both of which will now have 13-year periods in which prices cannot be negotiated under Medicare. After warning signs last year, it asks the Secretary of Health to look into the middle of the healthcare value chain, pharmacy benefit managers (PBMs).

The administration will continue with the drug price negotiations under the Inflation Reduction Act (IRA) and aims to develop a new payment model to improve Medicare. It also caps payments for

patients who use medication in hospitals. Lastly, the executive order intends to make importing pharmaceuticals easier in order to keep prices low.

This executive order makes it clear that the Trump administration is facing [conflicting policy goals](#). On the one hand, it aims to keep prices low and make importation of pharmaceuticals easier; it also wants to [impose tariffs to incentivise the reshoring of pharmaceutical manufacturing](#), which is directly opposed to making the importation of pharmaceuticals easier.

If tariffs are implemented, prices and shortages will increase – but generic manufacturing won't be reshored

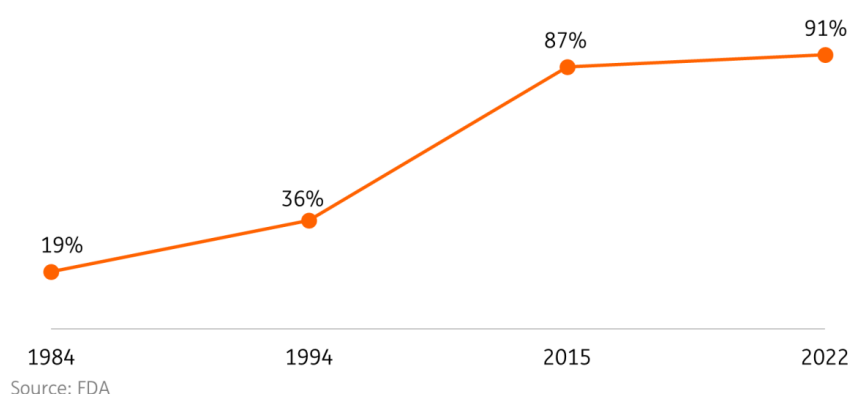
The new executive order will have mixed effects on the healthcare value chain. Better patent protection will keep prices of pills higher for longer, but reforms that concern PBMs may squeeze margin from the middle of the value chain, which could, depending on the measures taken, alleviate price pressures. Yet, we still think that if Trump imposes tariffs on the pharmaceutical industry, it will lead to higher prices and increased shortages without attracting additional generic manufacturing capacity.

Pharmaceutical manufacturing consists of branded (medicines with a patent) and generic (medicines without a patent) manufacturing. While the US has a strong branded pharmaceutical manufacturing sector, a lot of generic pharmaceutical manufacturing capacity has been offshored over the past decades because of price pressure. In India and China, economies of scale are much more significant and generic drugs can be produced at lower costs.

At the same time, the importance of generics as a percentage of prescription drugs has grown from 19% in 1984 to 91% in 2022. Understandably, this has created a strategic dependence on countries such as India and China, which are critical for the supply of raw materials and active pharmaceutical ingredients (APIs). Roughly 70% of generic APIs, for instance, originate from China.

Generic drugs have become much more important over the past decades

Share of generic drugs of total prescriptions



Lack of US production of generic drugs a key issue

The strategic dependence of the US on other countries is therefore one of generic pharmaceutical

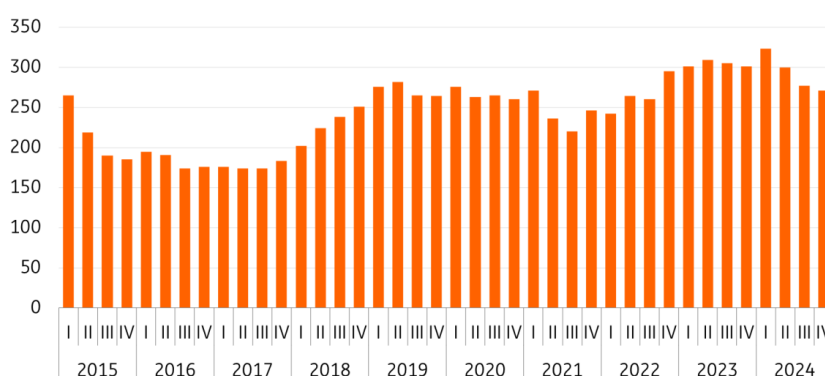
manufacturing. Having more control over generic supply chains by onshoring has its advantages, as it could, for instance, make supply chains more resistant to shocks and lead to less dependence on other countries for the supply of critical medication such as antibiotics. Onshoring would make generic drugs more expensive, as investments need to be earned back – but the advantages could weigh up against higher prices for generic medication.

Tariffs, however, will lead to higher prices and increased shortages for generic drugs without delivering increased manufacturing capacity. These drugs are produced at half the margins of branded drugs, which gives them less ability to absorb the increased costs from tariffs. Moreover, the volatility of Trump's tariff policy does not provide the certainty that tariffs are a long-term American policy, which discourages long-term investment in, for example, greenfield manufacturing capacity.

In short, we believe that generic drug manufacturers will hold off on investments in the US. In turn, they will either increase prices, as we showed in [an earlier analysis](#), or avoid the US market altogether. Given the importance of the US market, which accounts for roughly 40% of global pharmaceutical sales, generic manufacturers will prefer renegotiating existing contracts wherever possible. Yet, this is not always possible, and will lead to increased drug shortages – which have already been relatively high in recent years.

US drug shortages are relatively high since 2018

Active shortages at the end of each quarter Source: ASHP



Tariffs may lead to less R&D spending for branded pharma

For branded pharmaceutical production, we will see an increase in investments in US manufacturing capacity. The US is the most important, innovative and lucrative market, which necessitates the presence of branded pharmaceutical companies there. Earlier this year, companies such as Eli Lilly and J&J announced they would increase their investments in the US. However, increased investments in US manufacturing capacity come at a cost.

As contracts on prices for branded drugs are often agreed on for longer periods, branded pharmaceutical producers cannot increase prices overnight and will need to cut costs. The most likely of which is research and development (R&D) spending, which, in turn, might cause less innovation in the medium to long term. On the other hand, the increased time during which prices for pills cannot be negotiated under Medicare following the new executive order can offer better margins, which may partially offset the effects of tariffs for branded pharma.

EU needs to formulate a strategic response to Trump's pharmaceutical tariffs

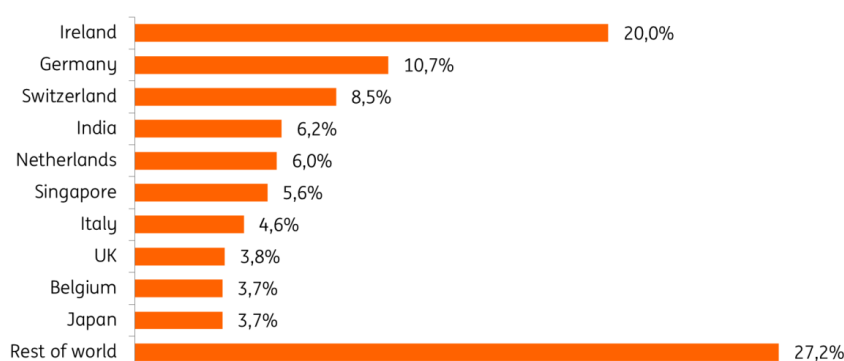
For the EU, American tariffs on pharma are a double-edged sword. For branded pharmaceuticals, tariffs [may potentially result in the shifting of branded manufacturing from Europe to the US](#), which could have adverse effects for countries that export a lot of pharmaceutical products to the US, such as Ireland, Germany and the Netherlands.

For generic pharmaceuticals, manufacturers avoiding the US market because of tariffs could increase supply to the European market. This, in turn, could drive prices for generics down further and take away the incentive to reshore the production of critical medication to Europe, as is the [European Commission's intention](#).

In short, the European Commission needs to be on the ball. It needs to protect Europe's pharmaceutical sector and its manufacturing capacity while making strides forward in reshoring the production of the most important generic medications.

Ireland, Germany and the Netherlands may be adversely affected by pharma tariffs

US imports of pharmaceutical products by country share, 2023



Source: Source: Global Trade Tracker, LSEG Datastream; WITS; UN Comtrade; ING calculations

Tariffs will not bring back generic manufacturing, but there are alternatives

We think that tariffs will have adverse consequences for the US; they'll lead to more drug shortages and higher prices, despite Trump's new executive order. For the EU, they may lead to less investment and fewer incentives to reshore the production of important generic drugs. The disadvantages are therefore substantial. They will not bring back generic pharmaceutical production to the US, and will only attract some additional investment from branded pharmaceutical companies at the expense of innovation.

However, there are alternatives – such as tax breaks or subsidies for generic manufacturers – which are costly but have a higher probability of reshoring generic manufacturing to the US. The wish to produce more generic drugs in the US is understandable, but we don't believe that tariffs on pharmaceutical products are a logical way to go about achieving this goal.

Author

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

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