

US consumers to be hit hardest by pharmaceutical tariffs

The day of reckoning for tariffs is rapidly approaching, and we're anticipating substantial disruption for the pharmaceutical sector. We see producers shifting some branded drug manufacturing from Europe to the US, while tariffs on Indian imports would drive up costs for American consumers



Pharmaceutical tariffs will increase prices for (generic) medication substantially at the expense of American consumers – and the most vulnerable will be hit the hardest

New wave of tariffs incoming

Tomorrow, 2 April, the Trump administration is [set to implement tariffs](#) on parts of the world that were not covered by the initial round of tariff hikes. Some uncertainty still lingers around what exactly they'll cover, but it's likely that we'll see an increased tariff on goods imported from the EU.

We also think India is more likely to be in the firing line this time around. Trump has repeatedly referred to the country as a "tariff king" in the past, and last week, the US President reiterated his comments on wanting to institute tariffs on the import of pharmaceuticals. India is one of the largest exporters of generic pharmaceuticals to the US. Lastly, he recently floated the idea of a 25% tariff on all countries that import oil from Venezuela – one of which is India.

With these tariffs, Trump aims to reshore manufacturing capacity to the US in sectors such as

pharmaceuticals, semiconductors and cars. In the absence of a deal with India, we think Trump's tariffs will mostly drive up drug prices for US consumers. Some branded pharmaceutical producers will gradually shift some of their production from Europe to the US, but the production of generic pharmaceuticals will mostly remain in Asia.

US consumers will face higher drug prices from tariffs on Indian pharmaceuticals

If the Trump administration imposes tariffs on pharmaceuticals from India, the impact on the US will be substantial. India mainly produces generic drugs and, in terms of dollar value, accounts for 6% of US imports. However, as prices for generic drugs are generally a lot lower than those for branded pharmaceuticals, that percentage underestimates the importance of Indian pharmaceutical companies for US drug consumption. 91% of all US prescription drugs are now generic; this figure was just 19% in 1984 (FDA).

We think it's unlikely that the largest Indian generic pharmaceutical manufacturers will shift (part of) their manufacturing to the US, simply because production in India is cheaper – even with tariffs in place – than it would be in the US. On top of that, the construction of new facilities would take roughly 10 years. That's a long investment horizon, especially given the uncertainty surrounding what could happen to the tariffs after Trump's term ends.

This means that the American branch of Indian generic pharmaceutical producers or their importers will either incur the tariff and raise prices, which would cause higher prices for US consumers, or avoid the American market altogether, which would lead to pressure on the availability of generic pharmaceuticals in the US. Given the importance of the US market, the latter is unlikely for the bulk of pharmaceuticals but may affect a few specific drugs. In short, we believe the price effect would clearly outweigh pressures on the availability of drugs.

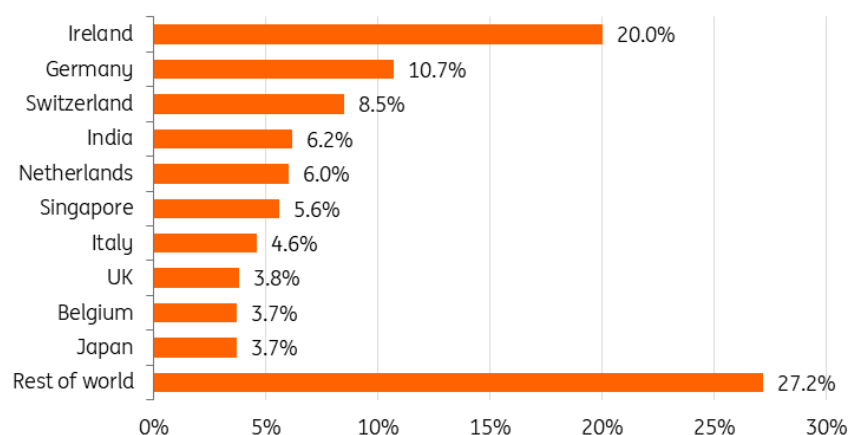
US will see some increase in capex from tariffs on EU pharmaceuticals

We've already shared our thoughts on the negative consequences of tariffs for the [European economy](#), and the region's pharmaceutical sector is no exception. We also think that potential tariffs could prompt an increase in capex in the US, and this would also entail less pharmaceutical production in Europe. In turn, this could cost jobs and hamper economic growth. Ireland, Germany and Switzerland are the most exposed to US tariffs on pharmaceuticals, but the Netherlands, Italy and Belgium also export a significant amount of pharmaceuticals to the US.

There are several factors at play here. First, branded pharmaceutical manufacturing is not as concentrated as generic manufacturing and happens across the globe, as margins are significantly higher than those for generic pharmaceuticals. Both the US and Europe are important manufacturing hubs for branded pharmaceuticals. The US is also the biggest market for pharmaceuticals and has a relatively short time-to-market for innovative medication. This means that branded pharmaceutical companies need to be present in the US. Given their presence all over the globe and their higher margins, some shuffling in their supply chains as a result of tariffs is likely. Recently, we've seen several large pharmaceutical companies announce additional investments in the US.

EU countries vulnerable to US tariffs on pharmaceuticals

US imports of pharmaceutical products by country share, 2023



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

Pharmaceuticals present conflicting policy goals for the US administration

For the US administration, tariffs on pharmaceuticals present conflicting policy goals. Trump has stated that he wants to bring down the prices of pharmaceutical products; in the same breath, he's said that he wants to bring manufacturing back to the US via tariffs. While some branded production might gradually be shifted to the US, a big increase in generic production is unlikely. We'd also highlight that tariffs have an inflationary effect, which would drive up costs for the US healthcare system and hamper the affordability of medication, especially for people without health insurance.

Commonly prescribed and relatively cheap generic drugs (such as heart medication) currently sell for roughly \$0.82 per pill. We believe a 25% tariff on pharmaceuticals could drive up the price to \$0.94 per pill, or an additional cost of roughly \$42 per year. For more complex and expensive generic drugs used to treat different types of cancer, for instance, we believe the additional costs for a 24-week prescription could range from \$8,000 to \$10,000. Both these calculations assume a 30% markup for the importing party and a 20% hike in price on the exported medicine. In this scenario, some tariff costs could be incurred by the exporter – which may not happen given how thin margins for cheaper, generic drugs are.

Fortunately for the US administration, higher value generic drugs could be reshored to the US much more easily than generic drugs that have thinner margins and are produced in greater quantities. Still, production in the US may also result in higher prices as US labour and production costs are higher than those in India, for instance. The initial impact on both patients and the US healthcare system could be very significant.

Tariffs will hurt US consumers most of all

We don't believe that more capex and a gradual increase of branded manufacturing capacity in the US is a significant enough benefit to outweigh the higher prices on pharmaceuticals as a result of tariffs. Tariffs will increase prices for (generic) medication substantially at the expense of

American consumers, and they will hit the most vulnerable US citizens the hardest. This outcome also contradicts the goal of the US administration to make pharmaceuticals more affordable and accessible.

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