

Pharma's Godfather moment: pulled back into tariff uncertainty

The US Supreme Court invalidated President Trump's use of emergency authority to impose tariffs. Yet, we believe that Most Favored Nation (MFN) deals with pharmaceutical companies will hold, although additional US investments could be postponed until after the current transition period



Michael Corleone, whose iconic line echoes pharma's return to uncertainty after the latest tariff twist

'Just when I thought I was out...'

Just as 16 branded pharma companies struck investment deals with the Administration – trading MFN pricing for a temporary reprieve on tariffs – the US Supreme Court ruling marked the start of a messy transition period. In response, the Administration invoked Section 122 of the 1974 Trade Act, which permits tariffs of up to 15% for as long as 150 days, with the possibility of extensions.

Crucially, pharmaceuticals fall under enumerated exceptions, meaning the tariff does not apply to them. Yet the renewed uncertainty feels familiar. As Michael Corleone puts it in *The Godfather Part III*: “Just when I thought I was out, they pull me back in.”

We expect MFN deals to hold

In spite of the messy transition period, we expect MFN deals to hold. This means that more investment in US manufacturing will happen, but it may be delayed until there is legal certainty

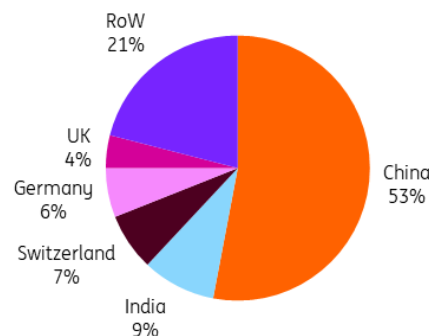
surrounding tariffs. Furthermore, the US government is unlikely to renege on its commitments to the branded pharma space, because TrumpRx and MFN have been touted by the Administration.

In addition, the sector is increasingly seen as integral to national security, which means there is a significant incentive to keep manufacturing and innovation close to home.

Tariff on generics will remain zero

For the generic sector, where the supply chain mostly sits in Asia, we expect the tariff rate to remain zero. It would be political suicide to levy tariffs on generic pharmaceuticals because the supply chain will not relocate as a result of the tariff threat, which would mean higher drug prices. And since 91% of all US prescription drugs are generics, these effects would be felt quickly. Moreover, this Administration has committed itself to lower drug prices.

The US imports more than half of its pharmaceuticals from China

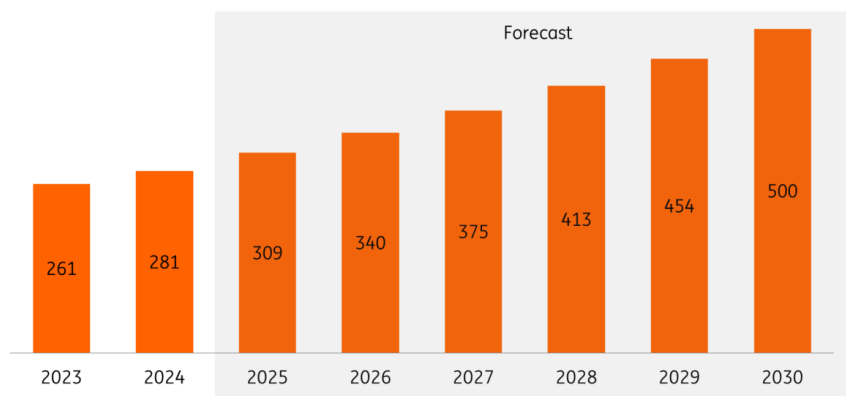


Source: United Nations Commodity Trade Statistics Database; BMI; ING

CDMOs are beneficiaries

[As we have written about before](#), the net beneficiaries of these uncertain times are CDMOs who offer a way out of uncertainty. As companies can use CDMO capacity to localise their manufacturing, this is why we expect high single-digit CDMO growth until 2030.

Global CDMO market to experience strong growth until 2030



Source: ING forecast based USD and Grandview Research

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