

Trump set to break WTO rules with potential pharma tariffs

Donald Trump's threat of 25% or more tariffs on pharmaceuticals imported to the US would be a bitter pill to swallow for both consumers and producers, as costs will increase particularly in the short run



Donald Trump speaking in Florida on Tuesday

Trump's announcement marks a clear shift in trade policy

The tariff threats keep on coming from the US President. On Tuesday, along with cars and semiconductors, [he stated](#) that his administration intends to hit pharmaceuticals with 25%+ tariffs. This marks a clear break from [WTO rules](#) which exempt all pharmaceutical products from tariffs.

On the timing, Trump stated that the tariffs for cars would come into effect on 2 April, but we're still not sure if and when pharma may be hit. He wants to allow producers to expand their manufacturing capacity in the US. However, this is complex and unlikely to happen overnight.

European producers would be most affected by the tariff

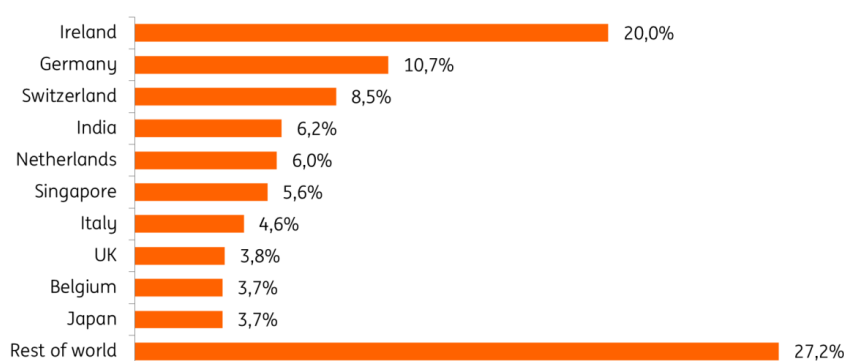
We estimate that the US consumed roughly \$560 billion of pharmaceutical products in 2024, of

which roughly \$200 billion was imported. In other words, the US imports roughly 36% of its pharmaceuticals. In recent years, Ireland has been the main import partner of the US, followed by Germany and Switzerland, and these are the countries that are going to be hit particularly hard should the threat become a reality.

These countries also export a mix of branded and generic pharmaceuticals. Branded pharmaceuticals are more expensive and make up a larger share of import value, yet 91% of all prescription drugs are generic, which means reliance on the availability of generic drugs is far greater than reliance on branded pharma (FDA). This is in contrast to countries such as India and China (responsible for roughly 6% and 2% of US imports, respectively) that mostly export generic pharmaceuticals to the US. Their importance to US consumers is, therefore, understated in the figure below.

Ireland, Germany, Switzerland top exporters of pharmaceuticals to the US

US imports of pharmaceutical products by country share, 2023



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

Increasing manufacturing capacity will take time

Trump's demand for more US manufacturing capacity in the pharmaceutical sector is warranted. In 2021, a [report](#) from the Biden administration found that that capacity restriction was leading to drug shortages. However, according to the [ASPR](#), several US manufacturing plants have been closed over recent years as a result of lower operating and labour costs offshore, price pressure and dependencies on other countries for raw materials. These factors complicate a swift expansion of manufacturing capacity.

That said, the capacity utilisation rate of manufacturing in the US is around 80%, according to the Federal Reserve, and this figure is lower for pharmaceuticals. Indeed, for pharma, these rates are kept relatively low to allow for flexibility when demand for a specific drug surges. Still, idle capacity in the US could be utilised to produce more pharmaceuticals on US soil. However, to utilise idle capacity, producers need to possess the raw materials required, which isn't always easy.

Moreover, producers of generic pharmaceuticals in India and China are highly specialised and enjoy significant economies of scale. This makes it difficult for US producers of generic pharmaceuticals with thin margins to compete, but this advantage could shrink as tariffs increase.

In addition, repurposing currently idle capacity will take time: [a report by Washington University](#) found that we're looking at something between two and three years. This is likely far longer than Trump would like.

Costs for consumers and non-American producers likely to increase

Although the timing of tariffs is uncertain, we believe that it is likely that Trump will not want to wait two to three years to impose a tariff on pharmaceuticals. If tariffs were to be imposed, this would likely increase the costs of prescription drugs in the US, hurting consumers. This is especially troublesome for generic drugs with thin margins that are unlikely to be reshored to the US; dependency on these drugs is large and, with no viable production alternative, prices for consumers will simply increase.

Moreover, it would increase costs for producers that would either have to navigate tariffs or increase production capacity in the US, both of which are costly to do. Speaking on this, Takeda CEO Christophe Weber stated: *"At Takeda, we have a manufacturing network focused on US, Europe, Singapore and Japan. It's a global network which was built on the premise of free trade...If there are more forces against free trade, we'll have to adapt over time."*

Lastly, if other blocs institute [tariffs in response](#), this would further drive up costs and pharmaceutical supply chain disruption. This is not good for anyone. Especially given that populations are ageing and demand for medicines is increasing, tariffs would put unnecessary stress on medicine prices and the affordability of healthcare globally.

So, although the demand for more US manufacturing capacity in the US is warranted, tariffs are likely the wrong way to go about achieving this.

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