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How tariffs on pharmaceuticals might play out

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Agenda

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- Background
  - How tariffs work
  - Rx industry dynamics relevant to tariff analysis
- Four key questions:
  - Will tariffs increase drug prices?
  - Will tariffs result in onshoring?
  - Will tariffs derisk U.S. supply chains from China?
  - Will tariffs lead to shortages?
- What's next?
- Q&A

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Tariffs are taxes that can reorganize markets

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Basic mechanism:

- Tariffs push up the price that foreign products cost
- As that price increases, demand shifts away from the more expensive foreign products towards domestic products
- Domestic firms not only gain market share, but also increase their prices, further increasing their profits
- This encourages domestic manufacturers to expand their capacity and new manufacturers to set up production in the U.S., increasing U.S. employment

What is the current state of drug tariffs?

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- Currently affecting products from China, Canada and Mexico
  - China 20% tariff
  - Canada and Mexico 25% if not compliant with USMCA
- Reciprocal tariffs from April 2nd exclude Rx drugs but…
  - "The pharmaceutical companies (…) are all coming back to our country because if they don't, they got a big tax to pay."
- Tariff rate is based on "country of origin" where "substantial transformation" of product took place
  - This usually means where API was made

Tariff example

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- Consider the following drug:
  - FDF has declared value of $100, API of $10
  - Current China tariff on Rx drugs of 20%
- Scenario 1: API imported from China & FDF is domestic
  - No tariff on domestic FDF
  - Tariff on API is 20% of $10
- Scenario 2: FDF is imported
  - Chinese FDF with Chinese API will pay 20% of $100
  - Indian FDF with Indian API will pay nothing (currently exempt)
  - Indian FDF with Chinese API will pay 20% of $100

Analysis of tariffs depends on drug type

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- Need to distinguish between
  - Brands versus generics
  - Solid oral dose generics vs generic injectables

- Why? Because they differ on key dimensions:
  - Exposure to tariffs
  - Ability to pass through tariffs
  - Ability to absorb tariffs
  - Supply chain resilience

Tariff exposure will differ by drug type

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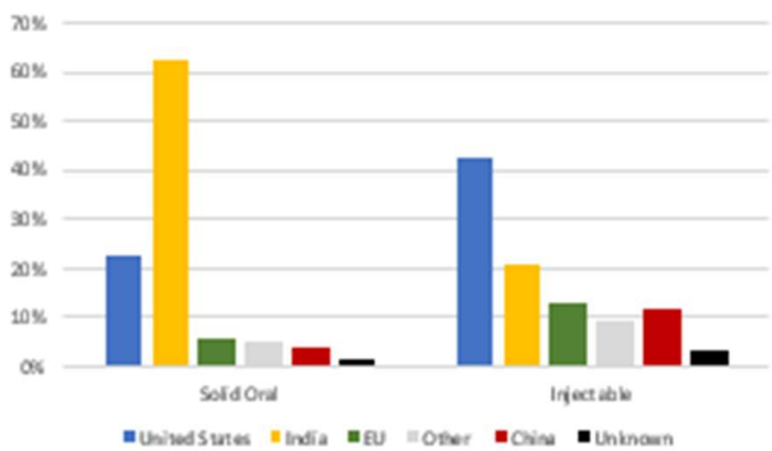
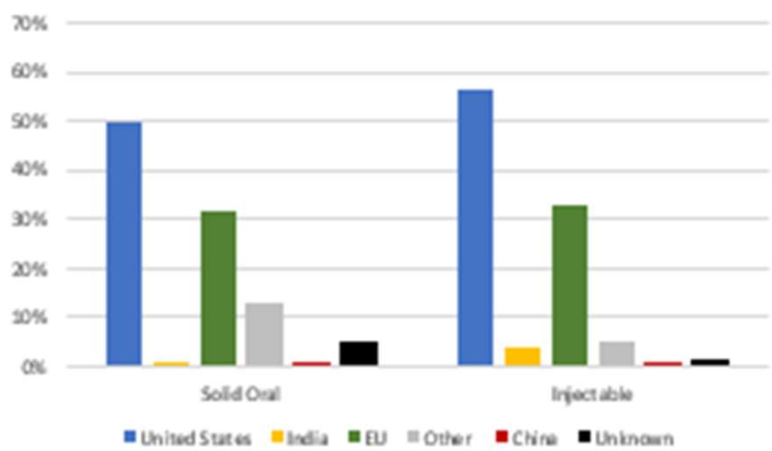
Generic drug volume by location



Branded drug volume by location



Source: Wosińska (2025)

But which tariff rate applies to imported FDF depends on country of origin

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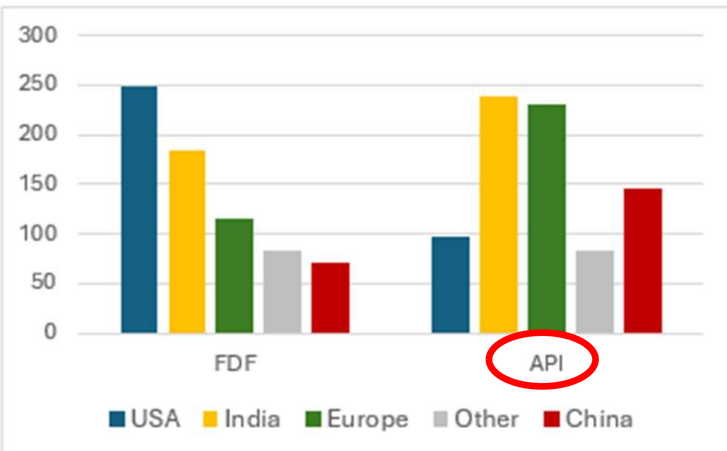
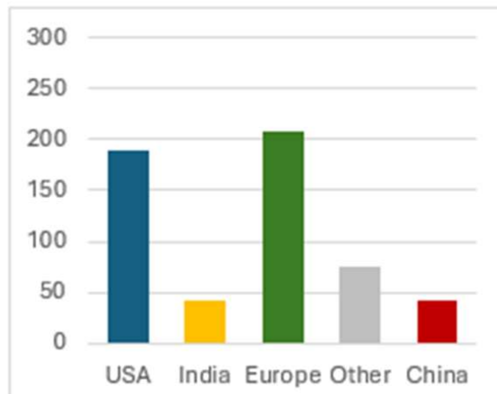
Generic facilities by stage of production



Source: Wosińska (2025)

Confirmed API facility count for branded products by location



Source: Wosińska (2025)

Will tariffs raise drug prices?

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- Depends on:
  - Elasticity of demand
  - Existence on contracts and rebates
- Elasticity of demand is about the buyer's next best alternative
  - Olmesartan example
  - Ozempic example
  - IV immunoglobulin example
- Contracts and rebates can limit passthrough
  - Contracts preventing manufacturers from raising prices (formulary and GPO)
  - Inflation rebates in Medicaid and Medicare (above CPI)
  - Spillover to 340B

Full passthrough may be limited downstream

- Full passthrough to payers more likely when contracts are up (or challenged)
  - Patients through higher OOP
  - Higher insurance premiums
  - Higher government spending (Medicare and Medicaid up to CPI)
- Buyers and first line payers may also have to absorb costs initially
  - Retail pharmacies have contracts through end of year
  - Health plans have contracts with employers
  - ASP has a six-month lag
  - DRG is very slow to catch up to input cost changes

Will tariffs result in drug shortages?

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- Shortages more likely if:
  - Tariff passthrough limited, leading manufacturers to exit
  - Supply chain is not resilient enough to absorb the exit
- Risk areas:
  - SOD likely have lower margins but GSIs face more challenges in increasing prices because of GPO contracts (all GSIs) and 340B (outpatient use, which varies by drug)
  - Likely different comfort level with market exit for essential drugs
  - GSI drug markets are much less resilient to shocks

What is next?

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- Effectively only tariffs on Chinese-made products are in place
- General sense that the reciprocal tariff exemption is only temporary but unclear what is next
  - President Trump on April 2: "The pharmaceutical companies (...) are all coming back to our country because if they don't, they got a big tax to pay."
  - Possible Section 232 assessment that looks at impact of imports on national security
- Depending on the objective, there are other tools to deploy

Questions?

Brookings drug supply chain portfolio:

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Prescription drug shortages and supply chain reliability

Policy insights regarding generic sterile injectable drugs, geopolitical risks, GLP-1s, and more.

Sections

- Generic sterile injectables
- Geopolitical risks
- GLP-1 shortage
- Government testimony and comments
- Events
- Podcasts