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CAP ISSUE BRIEF: Tariffs & Health

PRINCIPLE: Safeguarding American Health

Biopharmaceutical innovators navigate complex supply chains to deliver breakthrough medicines to American patients. A holistic strategy to re-shore critical production capabilities and secure global supply chains with trusted partners can boost U.S. healthcare resilience. A tariff-only policy will raise costs, interrupt supplies, and create shortages.



“FOREIGN DIRECT INVESTMENT IN PHARMACEUTICALS AND MEDICINES TOTALED \$503.4 BILLION IN 2023.”

U.S. International Trade Administration



Key Takeaways

- Technology adoption, regulatory streamlining, and domestic construction facilitation can make U.S. supplies of pharmaceuticals more reliable and resilient.
- Re-shoring and friend-shoring strategies reduce dependence on foreign adversaries for critical needs like antibiotics, while building redundancy and resiliency into supply chains.
- Tariffs should be narrowly targeted to unwind unhealthy dependence on foreign adversaries without harming supply chain relationships with trusted partners.
- Redundancy is Resilience. Keeping trusted partners engaged in U.S. supply chains ensures redundant supplies when natural disasters and other crisis situations threaten shortages.
- Trading partners continue to invest billions in the U.S. pharmaceutical market.



Issue Landscape

The U.S. currently dominates the global market for biopharmaceuticals. More than half of all global investment in biopharmaceutical R&D is held in the United Statesⁱ. Domestic and foreign companies alike prioritize the U.S. market for its high-functioning innovation ecosystem, world-class regulatory infrastructure, and legacy of respect for intellectual property rights. Consequently, Americans enjoy the world's earliest and widest access to breakthrough medicines. Including generics, Americans even pay lower average prices than the rest of the worldⁱⁱ. By common agreement, global tariffs on pharmaceutical products have been kept at or near zero for many decadesⁱⁱⁱ; however, increasing reliance on China for the key starting materials necessary to synthesize the active pharmaceutical ingredients of many low-cost generics, has prompted policymaker concerns of an unhealthy dependence.

A Policy Priority

Global leader. The biopharmaceutical sector is a critical industry for U.S. technological leadership, for national and economic security, and for the resilience and reliability of U.S. healthcare. Ensuring that the United States maintains a strong industrial capacity in every facet of the research, development and manufacturing of medicines should be a national priority.

The United States leads the world in biopharmaceutical innovation. Companies spent roughly \$150 billion on research and development in the United States in 2021^{iv} alone. Cumulative U.S. investment by foreign-based companies totals a half-trillion dollars^v.

Domestic Impact. The biopharmaceutical industry is one of the top manufacturers in America, directly employing one million Americans^{vi}. Its domestic investment in research and development for new cures is reaching \$100 billion per year^{vii}. Numerous major companies have announced plans to build new domestic manufacturing facilities^{viii}. Yet, the industry continues to depend on foreign sources for some necessary inputs as well.

Resilience. Committee report language^{ix} accompanying the FY26 Labor, Health and Human Services, Education, and Related Agencies bill notes the importance of the domestic pharmaceutical industrial base and the need to

mitigate risks to the U.S. pharmaceutical supply chain from a heavy reliance on foreign suppliers for critical drugs, including generic antibiotics, and the key starting materials for active pharmaceutical ingredients (“APIs”).

According to the Observatory for Economic Complexity, the United States imported \$229 billion worth of pharmaceutical products in 2024-25^x. Those imports included medicines and inputs to medicines, such as the active pharmaceutical ingredients (APIs) that make a medicine work, chemical components that enable proper absorption in the body, and glass vials and other packaging materials that are vital to the safe composition, storage, and distribution of complex chemical or biological products. In particular, although APIs used in innovative medicines come mainly from Europe, many of the key starting materials and APIs for cheaper generic medicines are sourced from China and India^{xi}.

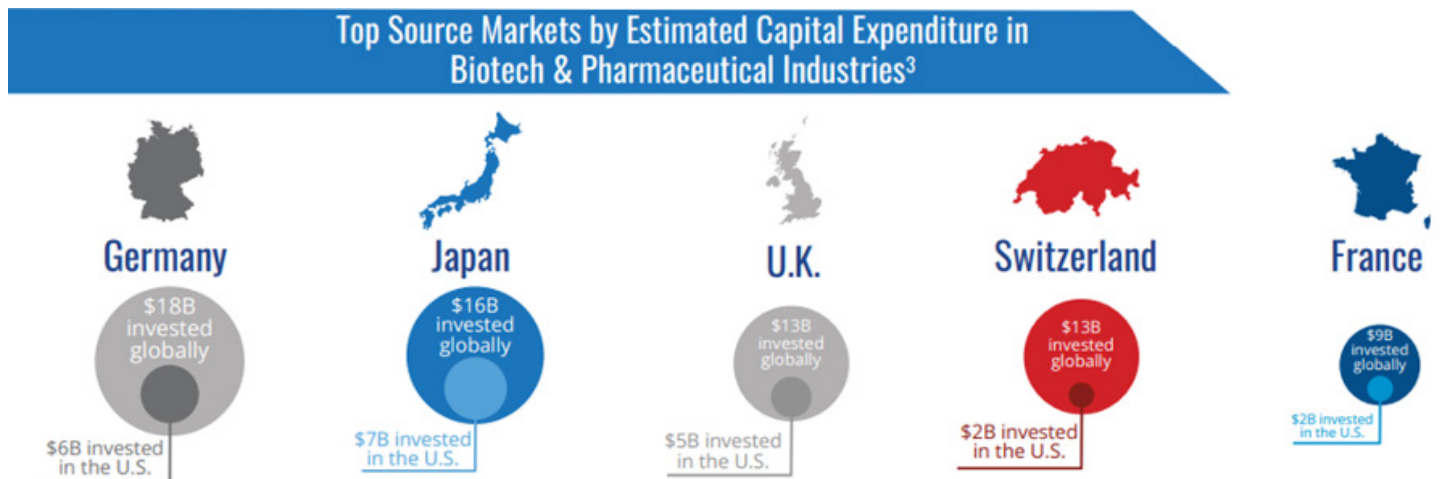
Policymakers have identified an urgent need to reinforce domestic capacity for the production of critical medical products and their inputs. However, a policy that ruthlessly sheds all foreign inputs into the sector would increase the prices and reduce the availability of medicines.

U.S. pharmaceutical needs are supplied by a wide range of domestic and international sources^{xii}. With a specialization in the R&D-intensive innovative pharmaceutical industry, Europe, alongside other

key providers like Japan, is the largest source by value of U.S. imports of innovative medicines, as well as pharmaceutical ingredients for U.S. domestic production of innovative medicines^{xiii}. Despite much lower overall import values, China and India are critical suppliers of a high volume of cheaper generic medicines, as well as the active pharmaceutical ingredients (“APIs”) used by U.S. producers in their manufacture^{xiv}.

International Trade. When goods, services, currency, or investment flow across borders, domestic economies are co-mingled with those of foreign trading partners to the extent of that trade. Items sent out of the country for foreign consumption are exports. Items received for domestic consumption from another country are imports. The opportunity to export surplus goods expands the scope of the total market available to U.S. producers creating economies of scale. Imports create opportunities for cost savings and enhanced choices for consumers and retailers, while also exposing domestic businesses to healthy competition.

Business intelligence platform Statista reports that the average rate for shipping a 40-foot container in global trade hit an all-time high of \$5,900 in July 2024^{xv}. Approximately 25 million containers enter the United States every year. Importing goods of any kind is expensive, so when goods are imported rather than purchased from a domestic source it’s almost always for one of two reasons: cost or



Tariff Policy Goals

Four R's - Tariffs may be targeted toward a number of policy objectives:

REVENUE

Tariffs raise revenue by taxing the importation of goods.

RE-SHORING

When tariffs are sufficiently high, they can shift the cost-basis in favor of domestic manufacturing, enabling its substitution for foreign production.

RESILIENCE

By raising the price of goods sourced from foreign suppliers, particularly those based in adversarial nations, tariffs may redirect production either on-shore or to more reliable (and lower-tariffed) overseas trading partners

"RAW MEAT"

Sometimes, tariffs are simply a political expedient that responds to a predominating nationalist or populist mood.

availability—and availability almost always comes down to cost.

Tariffs. Customs duties—or tariffs—are a tax on imports assessed when goods from another country arrive at a U.S. port of entry. As a condition of releasing an imported product into the United States a U.S.-based importer must make a customs declaration as to the contents and value of the goods received and submit any applicable duty payment to U.S. Customs and Border Protection.

Any applicable tariff—or customs duty—is applied as a percentage of the declared value and is paid by the importer. If the tariff is fifty percent, as in the case of tariffs being imposed on products imported from Brazil or India (in 2025)^{xvi}, the tax on a \$100 product is \$50, raising the cost to the importer from \$100 to \$150. Such tariffs add to the final cost of a product in the same way as any other business

expense such as labor, overhead, or shipping.

From there, a product may enter the stream of commerce in the United States at the importer's elevated cost. Assuming the product has been legally entered and meets applicable regulatory standards, it is now up to American consumers, or the retail suppliers they buy from, to decide whether or not to purchase the imported product—just as with any American-made product. Foreign-made goods, including pharmaceuticals, therefore enter the United States only when they have an importer who believes they can sell the product to a U.S. purchaser, even at the higher cost imposed by the tariff. This usually suggests that an equivalent product is not readily available at an affordable price in the United States.

Tariffs are a tax. Price increases are not an unintended consequence of tariff policy. Higher

costs are fundamental to policy goals of raising revenue, reducing imports, evening the playing field for American manufacturers, or substituting domestic manufactured goods for foreign-sourced products.

“[E]mpirical studies indicate that a significant portion of import tariff cost is passed on to consumers through higher prices^{xvii},” according to an analysis by Big 4 accounting firm EY. One study cited by EY found that approximately 100% of the tariffs imposed on Chinese imports in 2017-2018 was passed on to consumers through higher prices^{xviii}.

“Similar findings^{xix} suggest consumers face increased prices for both imported goods and

domestic substitutes,” EY continues. “In sectors such as consumer electronics, household goods, and automobiles, tariffs have been shown to translate almost directly into retail price increases. U.S. businesses also experience significant costs from tariffs, particularly those reliant on imported intermediate goods.”

European countries are key providers of drug products and ingredients, especially at the innovative end of the healthcare production spectrum. In the healthcare space, analysis by EY suggests that tariffs on pharmaceuticals could raise the price of U.S. pharmaceuticals by nearly 8%, given the 15% rate of duty on imports from Europe in the recent U.S.-EU trade deal.

Tariffs Won't Secure Our Drug Supply Chain—They'll Break It

*Sally Pipes, President, CEO, and Thomas W. Smith Fellow in Health Care Policy
Pacific Research Institute*

SHORTAGES.

“In the past, shortages have swiftly followed medical supply chain disruptions. After Hurricane Maria devastated Puerto Rico—which produces a host of pharmaceuticals and other medical products—in 2017, hospitals and infusion centers experienced critical supply shortages. And hospitals’ IV supplies were threatened once again in 2024 when Hurricane Helene damaged a major manufacturing plant, forcing hospitals to work around subsequent shortages.”

COMPETITION.

“China’s biopharma sector is expanding rapidly, and making it more costly to research and produce drugs in both the United States and Europe will only help China close the gap. By hurting our own industry, we make it easier for a competitor to surpass us.”

ALLIES.

“The U.S. drug supply chain is deeply intertwined with the rest of the free world. For branded medicines, American patients rely primarily on medicines manufactured in the United States. But they also rely on dozens of medicines that are manufactured primarily or entirely in Europe, and even many drugs made in the United States depend on European inputs. Europe alone produces over 40% of the active pharmaceutical ingredients used in branded drugs consumed in the United States.”

Excerpted from [Forbes, August 8, 2025, opinion piece](#)



The Trump administration has acknowledged that tariffs will cause Americans some pain:



“Access to cheap goods is not the essence of the American dream,”
said Treasury Secretary Scott Bessent^{xx}.

A Policy Solution

Re-shoring. Promoting domestic manufacturing to address undue reliance on adversarial trading partners—or simply to gain domestic control of supply chains for essential medicines that could be vulnerable in the event of a global crisis—is a worthy policy goal. However, a strategy of shifting the cost-basis toward U.S. manufacturing necessarily increases the price of medicines, with tariffs designed to raise the cost of imported goods in order to overcome the price differential between U.S. products and competing foreign alternatives and allow for domestic substitution.

For good reason, medicines have historically been exempted from tariffs. Where higher U.S. production costs—principally for generic medicines—are the reason that the healthcare industry outsourced some production in the first place, then simply forcing its return to the United States is not the right answer. That’s a recipe for higher out-of-pocket

patient spending. Instead, addressing the artificial barriers and costs imposed on U.S. manufacturing must come first.

In the innovative sector, where investment is already heavily concentrated onshore, tariffs will add to the burden of managing complex supply chains that must serve both U.S. and global demand for U.S. producers to remain world leaders. Meanwhile, for lower-priced generic medicines the cost-to-price margins may be too low to attract U.S. manufacturers. In both cases, without first ensuring reliable domestic alternatives, the result of tariffs would be higher prices, reduced access, and growing pressure on an already overburdened healthcare system.

Coercive tariff policies aimed at re-shoring, accordingly, should be used sparingly and strategically.

A better approach than heavy-handed pharmaceutical tariffs is to reduce the barriers that have historically hampered U.S. manufacturing; streamline regulations to decrease the time and cost to build in America, stimulate AI adoption, address energy and labor costs, go after the unfair trade practices that mis-direct critical investments to China, reinforce U.S. intellectual property rights to protect the innovation ecosystem, and collaborate with friendly nations that can be relied on to protect supply chains in times of emergency.

Tariffs, by contrast, would inject new friction into pharmaceutical supply chains, increase the cost of doing business in the United States, and discourage investment in areas that policymakers should be working to grow, putting U.S. innovation leadership at risk.



Friend-shoring. In addition to constructive policy measures that encourage further domestic investment and production, trusted trading partners in Europe Canada, Japan and South Korea should

be recognized as key contributors to the redundancy and resiliency of U.S. strategic capabilities and partnerships with those markets encouraged through reciprocal low or zero pharmaceutical tariffs.

Reducing dependence on China does not require breaking up relationships with reliable partners. Medicines are not interchangeable industrial commodities. They are complex, highly regulated, and often reliant on specialized components

sourced from one or two locations. For many of these components, no ready domestic substitute currently exists at scale.

Trusted Partners, Critical Supplies

Europe, Japan, and South Korea supply \$137 billion worth of pharmaceutical products to the United States each year. These medicines include vital treatments:

- Humira and Rinvoq for rheumatoid arthritis from Germany and Ireland;
- The psoriasis drug Stelara from Ireland and the Netherlands;
- Diabetes and weight-loss treatments Ozempic and Wegovy from Denmark;
- South Korea provides Leclaza, a first-line treatment for advanced lung cancer;
- Japan supplies Abilify, a long-acting injectable for schizophrenia and bipolar I disorder.

Even drugs manufactured at home often depend on critical components from partners. These range from stabilizers that allow sensitive biologics to travel without losing potency, absorption agents that make pills effective in the body, and active pharmaceutical ingredients that are the backbone of everything from cancer therapies to antibiotics. Roughly one-third of all APIs used in American medicines come from Europe alone . Imposing tariffs on trusted partners would drive up costs, disrupting supply chains and triggering dangerous shortages of essential medicines.

Avoid shortages. Supply chain resilience depends in part on redundancy as we have witnessed when key production and distribution centers in the United States have been impacted by natural disasters or other unforeseen interruptions leading to critical shortages of medicines and baby formula. U.S. facilities cannot be built overnight and even if the U.S. could domestically produce every single pharmaceutical input or product Americans require, it would still make sense to encourage some production by trusted trading partners, such as Europe, Japan, and South Korea.

Tariffs can trigger customs delays for temperature-sensitive biologics, prompt valuation disputes, and force re-negotiating of contracts—delays that can spoil shipments or cut into already short expiration windows, leaving wholesalers and hospitals with less stock on hand.

Unlike the nation's unhealthy dependence on Chinese imports, the U.S. trade relationship with trusted partners raises no national security concerns. Here, tariffs would merely increase the U.S. landed cost of the \$128 billion and \$6.3 billion in medicines and pharmaceutical ingredients the U.S. imports from Europe and Japan, respectively, each year.

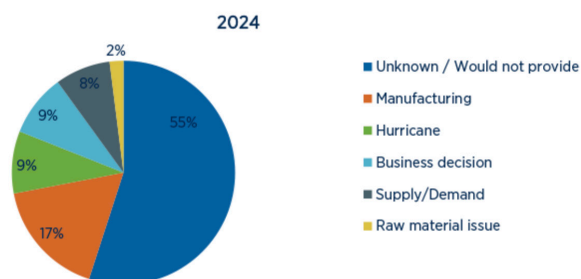
European and Japanese medicines have long been exempted from tariffs for a reason. They are essential to public health, and their supply must remain stable, affordable, and insulated from avoidable economic shocks. This longstanding policy to exempt pharmaceuticals and pharmaceutical ingredients from any trade remedies recommends that they likewise be exempted from industry-specific tariffs under Sections 232 and 301 of U.S. trade law or other tariff authorities.

Applying tariffs to these imports would significantly raise input costs for American manufacturers. These increased costs would then be passed down the supply chain, ultimately burdening patients with higher prices at the pharmacy counter and inflating spending across public and private health insurance programs.

A STRATEGY FOR SUCCESS

- **Avoid shortages.** Ensure that tariff policy focuses on adversarial nations whose reliability as a supplier of critical needs is questionable.
- **Build resilience.** Take measures to lower the costs of domestic production for U.S. manufacturers of pharmaceutical products and inputs.
- **Embrace redundancy.** Both re-shoring and friend-shoring have tangible benefits for U.S. patients and industry.

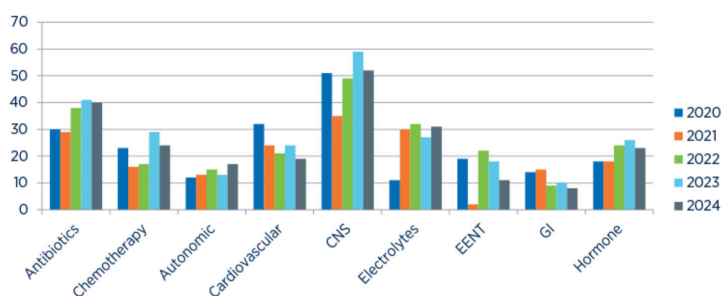
Reasons for Shortages as Reported by Manufacturers During University of Utah Drug Information Service Investigation



University of Utah Drug Information Service
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Source: ASHP^{xvii}

Common Drug Classes in Short Supply 5 Year Trend



Facts and Figures

Sources of U.S.-consumed Pharmaceuticals:

- Domestic production **supplied 64%** of American pharmaceutical needs in 2023, **imports only 36%**.
- Europe is the largest foreign supplier** of pharmaceuticals and inputs to the United States, accounting for **73% of total imports**.
- Approximately **30% of pharmaceutical imports** are inputs for products **manufactured in the U.S.**; Europe accounts for 88% of U.S. imports of pharmaceutical ingredients.
- While **India and China combined account for only 10%** of U.S. pharmaceutical imports by value, this trade is concentrated in **low-cost generics** that fill 93% of U.S. prescriptions.
- China accounts for 3% of U.S. pharmaceutical imports, but **27% of antivirals and antibiotics**.
- Overall, the **United States has been the majority producer of API** used in US-consumed medicines from at least 2019 through 2021.

Economic Impact of the Pharmaceutical Industry:

- U.S. biopharmaceutical employees work in a broad **range of occupations**, including scientific research, technical support, construction and manufacturing.
 - US pharmaceutical production activity supported approximately **1.7 million** total US jobs in 2023.
 - Over **217,000** biopharmaceutical jobs were supported by foreign direct investment in 2022.
 - The US domestic pharmaceutical industry in 2023 produced **\$387.9 billion** of gross economic output, of which \$351.7 billion was products for final use through sales to patients or export. (EY)
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Investments:

- The United States is the **world's largest market** for biopharmaceutical drug products, accounting for **73% of total OECD** business enterprise research and development (R&D) expenditures in the pharmaceuticals industry in 2021. – ITA cite to OECD
- Biopharmaceutical firms in the U.S. spent about **\$96 billion on R&D** in 2023.
- In 2023, R&D by biopharmaceutical firms in the U.S. accounted for over **20 percent** of total sales. (ITA)
- For the past 10 years, the United States was the **top source and destination** market for **greenfield foreign direct investment (FDI)** project announcements in the pharmaceuticals and biotechnology industry sectors.
- Foreign direct investment in pharmaceuticals totaled **\$503.4 billion** in 2023.
- In 2022, majority foreign-owned firms spent nearly **\$26 billion** on R&D.
- In 2022, over **\$25 billion** in biopharmaceutical exports were from majority foreign-owned firms operating in the United States. (ITA)
- In 2023, in value terms, venture capital investments in pharmaceutical and biotechnology made up **13 percent** of all U.S. venture capital investments.

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