Weekly Checkup

Tariffing Our Way to More Expensive Health Care

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With bated breath, the health care industry is waiting for the "results" of the Section 232 investigation into the national security implications of the pharmaceutical industry that the Commerce Department is pursuing under the Trade Expansion Act. But don't expect these "results" to support any other conclusion than the administration's stated end goal: that tariffs are necessary to prevent the United States from being taken advantage of (or whatever).

My colleague at the American Action Forum Jacob Jensen has written about how the Section 232 process works, and just this week estimated the impact of the administration's sector-specific tariffs – including a breakdown of the most impacted pharmaceutical imports by trade value. His analysis shows that there are several areas of concern for the industry, particularly in cancer drugs, immunosuppressants, and advanced biologic treatments.

While any tariff disrupts the industry on which it's placed, tariffs are particularly bad for an industry – a term I use broadly to encompass all aspects of pharmaceutical development, manufacturing, distribution, and use – with as delicate and complex a balance to manage as the pharmaceutical industry. Researching and manufacturing pharmaceutical products is no small feat and requires intensive resource allocation. The lead time for even conceiving of the idea of a drug – let alone sourcing its development and manufacturing – is most often measured in years, rather than days and weeks. Every aspect of this chain may be hindered by the introduction of uncertainty and volatility to the international economic system. As Irish trade minister Simon Harris pointed out: "The situation with pharma is more complex than it is often presented. About 80% of what US pharma companies export back to the US from Ireland is not the finished product, it goes into American factories, it creates jobs for American workers."

The entire theory of the administration's Section 232 investigation rests on the premise that the United States is "losing," and American patients are suffering the consequences of a globalized economy. Let's dispel this notion that we're being taken for a ride.

The United States is the far and away leader in innovation and research and development – all under the policies that apparently made the country "weak." According to IQVIA, in the past five years there have been 110 (40 percent) U.S. novel active substance launches that have not yet been launched in the key European markets, while only 14 (7 percent) drugs launched in Europe have failed to be launched in the United States. New medicines are not launched everywhere simultaneously; the United States is the most common first-launch country, with other country launches often lagging by a year or more. **If pharmaceutical companies are required to pay tariffs on medicines manufactured abroad or increase the cost due to the intensive nature of onshoring domestic production, this advantage will vanish.**

This is even more acutely felt in the generics industry, which operates on very slim margins and tends to make its money based on volume rather than unit prices. The U.S. market is large – 91 percent of all U.S. prescription drugs are generic. But approximately 40 percent of generic drugs have only one or two companies making their ingredients, according to one professor at Boston University. If something (say, a tariff) were to worsen the economics of producing these generics, we would likely see an increased risk of drug shortages or cost increases, especially if one or both companies determined the costs were unabsorbable and cease to make the medications.

Raising the costs of medications has real implications for patients, too, who will ultimately bear the brunt of the tariffs. According to an ING analyst, a 24-week course of generic cancer medication could see a cost increase by as much as $10,000 under a 25-percent tariff, to name just one example. If this comes to pass, patients may consider *not* taking medications prescribed to them. Some literature shows medication nonadherence causes at least 100,000 preventable deaths and $100 billion in preventable medical costs per year.

Even if tariffs on the pharmaceutical sector were dropped, the problem is broader than the placement of duties directly on pharmaceutical products. The administration's economic broadsides in other sectors have an equally huge role to play. Energy, immigration, higher education, tax policy: All of these contribute to the inputs that pharmaceutical manufacturers use to make the medicines we need. Punitive tax policy makes it more expensive to build and own their plants. Tariffs on energy imports make keeping the lights on and the plant running more expensive. Ditto for the administration's

prohibitive immigration policy, which is likely to exclude high-skilled labor from research and development.

We know tariffs on pharmaceuticals are bad. From additional data and through continued analysis and industry conversations, proof points will continue to accumulate. **The true national security concern is any action that restricts access to medications. One can only hope the course is corrected before irreversible damage is done to patients in the United States and across the world.**