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# Global trade redefined: Pharmaceutical and life sciences

**Dealing with tariff  
uncertainty**

July 2025





This report has been developed in collaboration with the Strategy& team, PwC's global strategy house. Together, we transform organisations by developing actionable strategies that deliver results.

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could happen next*

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# Introduction

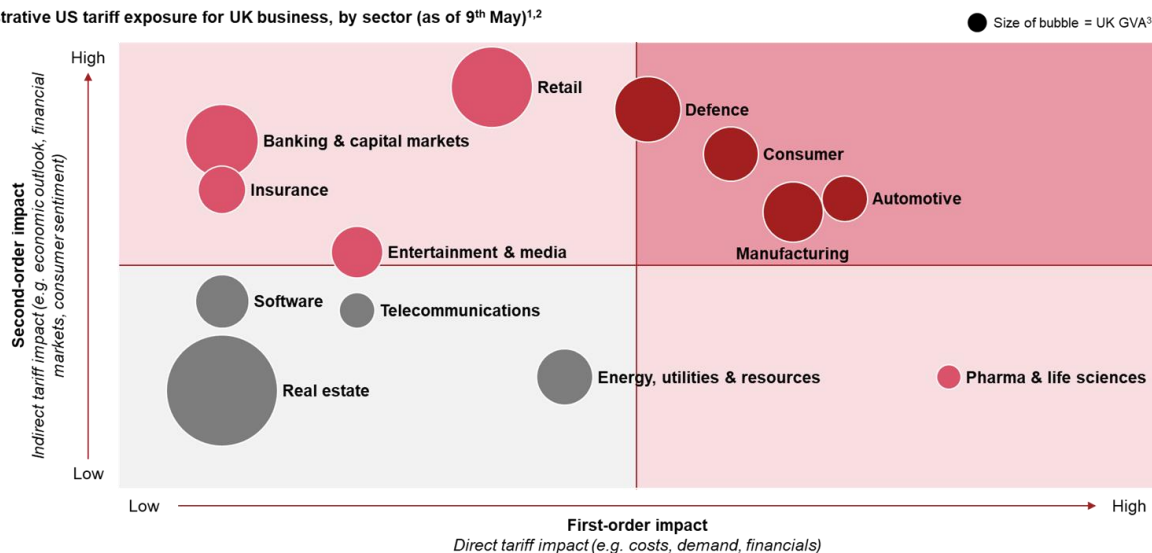
The UK's pharmaceutical and life sciences landscape is diverse, covering drug products, medical devices and life science products and tools. While the pharmaceutical industry has been exempt in the initial rounds of tariffs, the industry is bracing itself for sector specific tariffs. Furthermore, medical device and life sciences companies fall into the general tariff regime. The US is a vital export market with positive adoption of innovation, patient access and pricing potential, integral to many companies' growth strategies. As such, the impact across sub-sector varies and the nuances should be considered.

Pharmaceutical and life sciences supply chains are highly complex, highly regulated and reliant on international markets, including China, India and Europe, for products such as active pharmaceutical ingredients, intermediates or medical device components. With such diversified and decentralised supply chains alongside significant cost pressures on the sector, pharmaceutical and life sciences companies will have to reevaluate their operational footprint and the impact this has on their overall tax profile. However, the ability to rapidly shift and transform these supply chains can be challenging and costly.

## Some common industry actions:

1. Assess first-order impact versus second-order impact
2. Understand variation by sector within an industry and interdependencies across industries
3. Adopt a mix of 'no regret moves' in the short term and strategic choices in the longer term
4. Identify both risk mitigants and growth opportunities
5. Embed ongoing resilience to respond to geoeconomic shocks

Illustrative US tariff exposure for UK business, by sector (as of 9<sup>th</sup> May)<sup>1,2</sup>



Notes: 1. Estimated tariff impact assumes measures stay in place for a prolonged period, in line with Strategy&'s 'Break and reorder' scenario; 2. Featured sectors account for c.60% of UK GVA (Gross Value Added); 3. Estimated 2024 GVA based on ONS data

# Assessing the situation

On 2 April 2025, the US administration announced a sweeping package of tariffs on imported goods. This marked the beginning of a tumultuous period, during which sector-focused tariffs have been implemented, pauses have been extended, and tariff letters have been issued. Businesses continue to face a materially more volatile and uncertain global trading environment as a result.

## What happened on ‘Liberation Day’?

An Executive Order introduced a dual framework of US import restrictions: (1) broad-based ‘baseline’ tariffs; and (2) targeted ‘reciprocal’ measures. The UK was subject to the 10% baseline rate, while other partners were subject to much higher rates.

These tariffs sat alongside a number of product-level distinctions (e.g. automobiles, steel, and aluminium), and exemptions (e.g. pharmaceuticals and critical minerals).

## Activity in overdrive

On 9 April, reciprocal tariffs were paused for 90 days - creating a window for intense diplomatic engagement between the US and its main trading partners.

As only three ‘agreements’ were reached within the initial 90-day window, this pause has since been extended to 1 August. This extension was announced alongside the issuance of formal ‘tariff letters’ which confirmed and, in some cases, revised rates.

While these letters provided clarity, they have also sparked new complexities. Some countries such as Japan and Brazil saw steep increases, while others received conditional relief. Countries must now consider how to respond, either through acceptance, retaliation, or renewed deal-making efforts.

It remains unclear exactly what will happen next as we pivot from a predictable trading environment into uncharted territory, but it is evident that **global trade is being redefined**.

## Extended fragmentation

While the initial focus has been on goods, trade disruption is likely to spill into other domains. For instance, some service sectors may see sharper regulatory divergence, while others trend towards regionalisation.

Labour mobility, too, is under pressure. Migration constraints and shifting geopolitical alliances are limiting access to global talent pools, while heightened restrictions on knowledge exchange and capital flows risk slowing innovation - particularly in sensitive areas like AI and tech.

These shifts may feel abstract for UK businesses, but they carry real implications. Fragmented capital markets could restrict cross-border investment, divergent data standards might hinder digital growth, and scaling innovation across borders may become more challenging.

Businesses that once optimised for cost and efficiency must now account for robustness and agility - embedding **resilience** as a guiding principle across supply chains, partnerships, and talent strategies.

Organisations must adapt to this redefined world, with success likely to belong to businesses that can bridge the divides that others can’t yet see.

“

Trade is the hinge between economic theory and political reality. When it swings, the whole house can shake.”

**Barret Kupelian**, Strategy& and PwC UK Chief Economist

# What could happen next

## The contours of a new trading system

While US trade policy remains volatile, there are three defining themes which we expect will underpin the future path. Most notably, it is our view that stronger protectionism will be a guiding principle for the US - a stance which may continue to evoke retaliatory action across the globe.

As the direction of trade policy becomes clearer, businesses must shift from reactive decisions to long-term strategic planning. This means developing investment strategies, risk management frameworks, and supply chain designs that build resilience against potential future changes.



### US protectionism is here to stay

Enhanced US protectionism is likely to remain for a number of reasons:

**Political sensitivity** – the White House has framed the tariffs as a national security issue, making it difficult to roll back policy.

**Tax revenue** – tariffs may generate up to 6% of total US federal income in 2025.<sup>1</sup>

**Business backlash** – businesses that have adapted operations in response to tariff announcements would be stung by policy U-turns.

**New measures** – even if the US decides to move beyond tariffs, other protectionist measures such as domestic subsidies or local content requirements, may be considered.



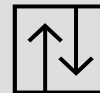
### Shields will vary by sector

Policy specifics will evolve over time, but the US is likely to 'shield' particular sectors:

**Tariffs will focus on industries where the US sees domestic opportunities**, such as steel, automotives, and semiconductors.

**Priority industries are likely to evolve over time**, as the US administration better understands domestic capability and international reliance.

**The US is open to carving out exemptions for partners who are willing to negotiate**, as illustrated by the trade agreement reached with the UK.



### Policy will remain dynamic and unpredictable

US policy will continue to evolve at pace, and is likely to remain somewhat unpredictable:

**Dynamic** – the US weighted average tariff rate has fluctuated through 2025, with continued volatility likely.

**Unpredictable** – ongoing Section 232 investigations into steel and aluminium hint that fresh measures could drop without warning.

**Escalating** – if threats towards trading partners such as Brazil, Mexico, and the EU materialise, the US weighted average tariff rate could climb to c.35% by 1 August 2025.<sup>2</sup>

**Less credible** – some Wall Street commentators have viewed US announcements as negotiation tactics rather than true policy direction, with policy credibility further eroded with each cycle of delay and de-escalation.

**Notes:** (1) January 2025 Congressional Budget Office projections – prior to the announcement of Liberation Day tariffs (2) US weighted average tariff rate reflects the average tariff imposed on goods imports to the US, considering both country-specific and sector-specific rates due to be implemented on 1 August. **Sources:** WITS, the Budget Lab at Yale, Reuters, Congressional Budget Office



# Taking stock of tariffs

## Understanding the impact on the pharmaceutical and life sciences sector

Sector specific tariffs for Pharmaceutical products are being discussed, which could exceed the baseline 10% tariff. Medical devices and other life sciences products are currently facing a 10% tariff (with the exception of China, Mexico and Canada), while the 90 day pause plays out. This is strictly a temporary pause, and post the 90 day period, absent of any negotiation or change of plan, the original reciprocal tariffs will apply to medical devices and life sciences products, leading to regional disparity. Products from China will face additional tariffs, with pharmaceuticals having 20% as a result of the Executive Order, and other life sciences products falling under the general tariff of 145%. Mexico and Canada will face tariffs of 25%, unless they qualify for the exemption under the USMCA.

### Tax and operational assessment

While the medium to long-term structural impact on the pharmaceutical and life sciences sector may ultimately be significant, such shifts are likely to unfold gradually. Any operational responses or strategic interventions will need to be carefully phased over time. In the near term, however, the immediate priority is to thoroughly assess and quantify the tariff implications from a tax and operational perspective. The following actions can be taken now and may have a meaningful impact on your business's overall exposure.

- |           |  |           |  |
|-----------|--|-----------|--|
| <b>01</b> | Conduct/validate impact assessments, including understanding the physical product / material flows. In some cases consider shorter to longer term prioritisation of the US market and impact on margins. | <b>05</b> | Consider from a transfer pricing perspective whether intercompany product pricing is correct across the value chain (e.g in Pharma, API, intermediaries, finished doses). Ensure any revised pricing adheres to the arm's length principle (and aligns with customs considerations). Particularly relevant if tariffs differ by country of origin. |
| <b>02</b> | Review eligibility for tariff exemptions and exclusions, for example goods in transit before 12.01am EDT on 5 April 2025.  | <b>06</b> | Consider the US specific valuation principles.   |
| <b>03</b> | Understand the <b>country-of-origin rules</b> and where goods are substantially manufactured. Consider a First Sale For Export strategy.   | <b>07</b> | Review contracts to confirm whether they include a tariff cost adjuster / escalator in terms of cost. Can the external supply base be reorganised or renegotiated?   |
| <b>04</b> | Understand the value build up of the price to ensure the custom value is correct and review cost components.   | <b>08</b> | Consider the impact on any changes to the above on the corporate income tax and indirect tax profile (e.g. VAT) in the US and other jurisdictions.   |

### A Focus on MedTech (MT)

- Medtech supply chains often run through Mexico and China - these are two key focus areas for risk assessment and mitigation given the specific focus of these territories from the US. Consideration should be given to a thorough assessment of "country of origin" vs "country of export" across various stages of the value chain, assessing points of substantial transformations and whether these can be flexed for favourable tariff rates
- Maintaining close alignment with trade bodies which have begun deploying lobbying actions is advisable as well as keeping on top of global trade / financial flows and customs values
- Consider: USMCA application and other US specific valuation methodologies

# Navigating the potential fallout

## Actions you should take

There remains a huge amount of short term uncertainty around the tariffs, by subsector and by region. As a result the options companies are considering vary, depending on the nature of their offering, existing supply chain and footprint, customer flexibility and their availability of capital. Nevertheless, there are a number of potential options that companies can consider:

### Short term 'no regrets' actions

- 01 Consider the tax points noted on the previous page, and evaluate the impact on income tax, transfer pricing and tariffs (taking a holistic tax view)
- 02 Shift more volumes to local US manufacturing sites, where the companies currently dual source, or where there is spare capacity at existing US sites, or where frictionless capacity expansion can be achieved
- 03 Depending on the nature of the final pharmaceutical tariff, if there is regional disparity, and certainly in the case of medical devices, some companies may look to manage their supplies around the globe to take advantage of this heterogeneity in tariff rates between countries. Although, in the case of the pharmaceutical specific tariff there is no indication of this as yet, and it may be a simple blanket global tariff
- 04 Develop broader investment plans whereby new manufacturing sites and / or capacity are developed. Given the time and expense required to design, commission and gain regulatory approval to begin manufacturing, this may however be a medium-term solution.

### Longer term thinking

- 06 Consider the overall tax model (customs, transfer pricing, direct and indirect taxes) implications and impact of any supply chain reorganisation so as to fully evaluate the options through an integrated business and tax perspective.
- 06 It may be that many companies are just unable to adapt their complex supply chain in the short to medium term, and as a result will endure the tariffs, either directly or by sharing it with the customers. This will likely lead to a period of higher drug or device manufacturing costs, which may or may not be able to be passed onto healthcare systems, and thereby potentially drive more challenging affordability and access negotiations
- 07 Finally, given the level of uncertainty, some companies may be taking a more cautious stance of watching and waiting, while analysing the potential impact, should the situation change or revert back post the 90 day pause. In some cases they may choose to 'wait it out' beyond the 90 days to the next two to three years to see whether political change leads to alternative international trading policies.

### No matter what the response it needs to be cross-functional, structured and organisation wide

Companies are standing up cross-functional tariff response programmes to keep efforts comprehensive, organised and clearly communicated.

#### Trade Compliance

##### Response Team

**Focus:** Confirm all imports / exports are classified accurately and compliant with global trade agreements

#### Finance / Tax

##### Response Team

**Focus:** Review customs values and consider financial and tax impacts of tariffs through mitigation strategies

#### Supplier Management

##### Response Team

**Focus:** Negotiate and track supplier price impacts and adjustments when tariffs are amended. Assess alternative supplier options.

#### Supply Chain

##### Response Team

**Focus:** Optimise intercompany supply flows and align manufacturing network decisions with short term / long term trade projections

### Policy Updates, Communications & IT Support

# Key contacts

Contact us to discuss how best to respond to the changing rulebook for global trade.



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