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Global trade redefined: Pharmaceutical and life sciences

Dealing with tariff uncertainty

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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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Introduction

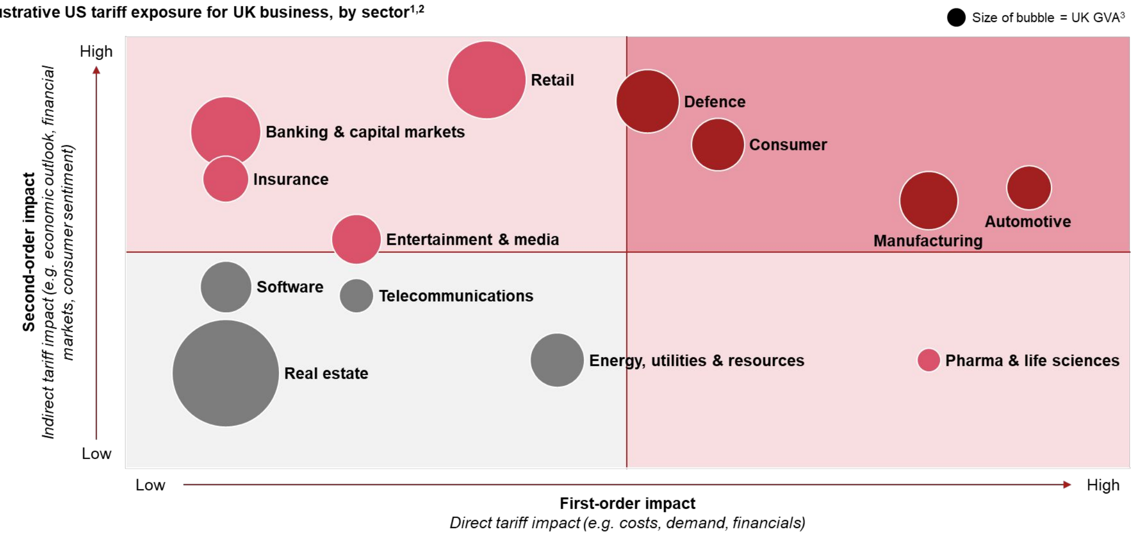
The UK's pharmaceutical and life sciences landscape is diverse, covering drug products, medical devices and life science products and tools. While the pharmaceutical industry has been exempt in the initial rounds of tariffs, the industry is bracing itself for sector specific tariffs. Furthermore, medical 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[1,2]



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

Where we are today

On 2 April 2025, the US administration announced a sweeping package of tariffs on imported goods. It marked the country's most significant departure from liberal trade policy since the Smoot-Hawley Act of 1930. The scale of the measures suggests a structural pivot in US trade strategy. Given their breadth, and the growing likelihood of retaliatory responses from key trading partners, businesses now face a materially more volatile and uncertain global trading environment.

What happened on 'Liberation Day'?

The Executive Order introduced a dual framework of restrictions: broad-based 'baseline' tariffs alongside more targeted 'reciprocal' measures. The EU was subject to 'reciprocal' tariffs of 20%, China 34%, with certain South-East Asian economies facing higher rates still. The UK was included under the 10% 'baseline' category. Certain exemptions were made for pharmaceuticals, critical minerals and semiconductors.

Prior to this, there were also a number of product-level distinctions, for example steel and aluminium and automobiles were previously singled out with a 25% tariff.

On 9 April, reciprocal tariffs were paused for 90 days for most trading partners. The 10% 'baseline' tariff introduced on 5 April now applies for all countries, except China, for which a 145% tariff applies to most goods.

A further revision was introduced excluding smartphones, computers and other electronics. US officials have indicated that further sector-specific measures are likely, including pharmaceuticals.

The international response has been mixed:

- **Retaliatory tariffs** from countries such as China and Canada, which have imposed tariffs on a wide range of US goods.
- **Diplomatic engagement** from the UK and EU, signalling efforts to secure exemptions or negotiate new terms.
- **Unilateral liberalisation** from a small number of economies, which have opted to remove tariffs on US imports entirely, albeit from a starting point where most US goods were not subject to tariffs.

Looking ahead

Recent US statements suggest further restrictions may be introduced in select product categories, including pharmaceutical products, regardless of the country of origin.

Economic theory holds that when trade flows are disrupted, capital flows are rarely far behind. Asset markets are already reacting. We've seen volatility across equities, fixed income and foreign exchange – some of which may reflect repositioning by non-US central banks, many of whom hold large exposures to US government debt. This adds another layer of complexity for firms already contending with uncertainty around tariffs, supply chains and pricing.

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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?

Three scenarios to plan for the short term

In the near term, scenario planning will be essential. Over time, a reassessment of supply chain configuration, investment strategy and risk management frameworks may prove unavoidable in the face of an increasingly fragmented global trading system.

To help clients better understand how tariffs could evolve, we've devised three scenarios. Given the unpredictable and fast changes happening, we've chosen to limit these to tariff policy. However, we are mindful that the current changes to US tariff policy is likely to spill over into second- and third-order impacts.

Stabilise and rebuild

Reversal of the US's position on tariffs, coupled with time-bound trade negotiations with its main trading partners, including Canada, Mexico and China.

To limit market uncertainty, there is regular forward guidance on the state of the trade negotiations. The US's main trading partners strike limited trade arrangements by the end of the 90 days suspension period (i.e. 8 July 2025). These come into force by the end of the calendar year. In the interim, the 'baseline' tariffs continue to apply for most economies, including China.

Divide and deal

Reversal of US position on tariffs coupled with time-bound trade negotiations with some of the US's trading partners (EU, UK, Canada and Mexico included) but excluding China (and potentially some other South-East Asian economies).

- For those counterparts where a trade arrangement is agreed by 8 July 2025, these are put in place by the end of 2025/Q1 2026. In the interim, the 'baseline' tariffs remain in place.
- For those counterparts where a trade arrangement is not agreed upon within the 90 days, reciprocal tariffs are re-imposed, consistent with the 2 April 2025 announcement.
- For China, tariffs remain in place consistent with the US's latest announcements and Chinese policymakers react in kind.

In the medium to long run, the ex-US G7 economies set up cooperation mechanisms which lead to gradually closer trading, regulatory and investment cooperation.

Break and reorder

Trade negotiations with most of the US's trade counterparts, including the EU, UK, Canada, Mexico and other advanced economies break down. The US doubles down on its necessity to swiftly eradicate the goods trade deficit with the rest of the world. The US reimposes 'reciprocal' tariffs by 8 July 2025. With this in mind, the EU, Japan, China and other economies retaliate in equal measure. As these economies import less than they export to the US, retaliatory actions spill over into the services sector (e.g. digital services) and potentially to public procurement.

In the short to medium run, the ex-US G20 economies set up trade, regulatory and investment cooperation mechanisms at very rapid pace. In this scenario, we could also see some non-European economies seeking a Customs Union arrangement with the European Union. We could also see some South-East Asian economies forging closer trading relations with China. These changes are also rapidly reflected in investment flows.

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.

01 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.

02 Review eligibility for tariff exemptions and exclusions, for example goods in transit before 12.01am EDT on 5 April 2025.

03 Understand the **country-of-origin rules** and where goods are substantially manufactured. Consider a First Sale For Export strategy.

04 Understand the value build up of the price to ensure the custom value is correct and review cost components.

05 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.

06 Consider the US specific valuation principles.

07 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?

08 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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