HEALTHCARE & LIFE SCIENCES

The Effect of Trump's Tariffs on the European Pharmaceutical and Biopharmaceutical Industry

As the U.S. considers imposing tariffs on European pharmaceutical imports, the ripple effects could be felt across the global healthcare landscape. For an industry already grappling with rising R&D costs and competitive pressures, these tariffs threaten to erode profit margins and disrupt finely tuned supply chains. With Europe exporting billions in medicines annually to the U.S., the proposed 25% tariff could inflate costs, compress margins and force companies to rethink their strategies. The question now is whether the European pharmaceutical sector can adapt swiftly enough to mitigate these challenges and maintain its competitive edge in this shifting trade environment.

Introduction

U.S.-EU trade relations have long been defined by cooperation in critical sectors, none more so than pharmaceuticals.

The European Union (EU) is a key exporter of active pharmaceutical ingredients (APIs) and finished medicines to the U.S. However, President Donald Trump reignited tariff threats in his 2024 campaign, pledging to impose tariffs on imported pharmaceuticals as part of a broader push to reshore American manufacturing.[1] This policy direction, if enacted, could fundamentally alter the structure of the global pharmaceutical supply chain and force Europe to re-evaluate its industrial and strategic positioning.

Supply Chain Disruption

Europe plays a crucial role in the global pharmaceutical supply chain. Ireland, Germany, Belgium, and Switzerland export billions in pharmaceutical products to the U.S. each year.

In 2024, Ireland alone exported over 44 billion euros in medicines to the U.S.[2] Trump's proposal of a 25% import tariff would significantly increase costs, affecting both sides of the Atlantic. Disruptions are expected across stages of drug production, particularly in biopharmaceuticals, which depend on complex, multi-stage global supply chains.[3]

APIs might be sourced from Asia, then processed in Europe and packaged in another region before reaching U.S. markets. A tariff at any stage risks cascading costs, delays and shortages, especially for essential medicines. Industry groups have warned of potential drug shortages in the U.S. and margin compression in Europe.[4]

[1] https://www.theguardian.com/business/2025/apr/09/eu-drug-firms-warn-of-exodus-to-us-as-trump-threatens-import-tariffs

[2] https://www.independent.ie/world-news/pharma-companies-issue-demands-to-stay-in-eu-ahead-of-expected-us-tariffs-as-irish-economy-braces-itself/a1372982096.html

[3] https://www.biospace.com/policy/tariffs-would-impede-access-to-affordable-drugs-industry-warns

[4] https://www.bioworld.com/articles/718195-as-tariffs-threaten-us-imports-of-apis-companies-reshore-manufacturing

> President Trump announced on "Liberation Day" new import levies, including a 20% tariff on goods from the EU, 31% on Switzerland, and 10% on the U.K.

Strategic Corporate Responses

In anticipation of tariff impacts, leading pharmaceutical firms have begun reshaping their operational strategies.

Novartis announced a $23 billion investment over five years to expand ten U.S.-based manufacturing facilities, with a goal to localise all production for the American market.[5] Other firms are forming dedicated trade response teams or "tariff taskforces" to navigate the shifting regulatory and economic landscape.

This trend reflects a broader movement toward supply chain localisation, where companies adopt a "local-for-local" approach to mitigate geopolitical risks. The shift undermines the efficiency of global production systems and potentially devalues high-skill manufacturing regions in Europe.

Manufacturing Dislocation: Strategic Rebalancing Under Trade Pressure

Trump's renewed trade protectionism has triggered a deeper manufacturing realignment.

The EU's traditional strength in high-quality pharmaceutical manufacturing is now under threat. If U.S. market access becomes contingent on domestic production, European facilities may lose relevance (although the EU could gain a price advantage if other countries impose tariffs on medicines exported from the U.S.). Countries like Ireland, Belgium and Switzerland, which serve as pharmaceutical export powerhouses, face economic risks including job losses and reduced foreign direct investment (FDI).

Moreover, the manufacturing reshuffle diverts capital from EU-based innovation. As companies channel billions into U.S. infrastructure, funding for R&D and advanced manufacturing capabilities in Europe could shrink. This may reduce the EU's competitiveness in next-generation biopharma technologies and specialised production techniques.[6]

[5] https://www.reuters.com/business/healthcare-pharmaceuticals/novartis-plans-invest-23-billion-us-plants-trump-renews-drug-tariff-threats

[6] https://www.europeanpharmaceuticalreview.com/news/255328/tackling-eu-supply-chain-challenges-while-boosting-innovation/

Legal and Regulatory Challenges

Pharmaceutical products have traditionally benefited from tariff exemptions under World Trade Organisation (WTO) agreements.

A cornerstone of this framework is the 1994 Agreement on Trade in Pharmaceutical Products, known as the WTO Pharma Agreement, which permanently eliminates tariffs on a broad range of pharmaceutical products and their components. The agreement was signed during the Uruguay Round and applies to a specific group of participating members – including the U.S., EU, U.K., Switzerland, Japan and others – who agreed to implement its outcomes on a most-favoured-nation basis.[7] However, as tariff policies evolve, pharmaceutical companies must also consider domestic compliance risks under U.S. laws. In particular, misstatements or misclassifications related to country of origin or Harmonized Tariff Schedule (HTS) codes can lead to substantial liability under the False Claims Act (FCA), which the U.S. government has increasingly used in customs-related enforcement actions.

[7] L/7430

> Currency fluctuations, cost inflation and strategic risk aversion have complicated long-term planning.

Although pharmaceuticals were initially exempt from recent tariff rounds, President Trump announced on "Liberation Day" new import levies, including a 20% tariff on goods from the EU, 31% on Switzerland, and 10% on the U.K. On April 9th, he declared a 90-day pause on these pharmaceutical tariffs, temporarily reducing all countries' rates to a flat 10%. Notably, China faced a sharply increased 125% tariff.

Subsequently, on May 12, 2025, the U.S. and China reached a temporary agreement to de-escalate trade tensions. Under this deal, the U.S. reduced its tariffs on Chinese goods from 145% to 30%, while China lowered its tariffs on U.S. products from 125% to 10%. These reduced tariffs are set to remain in place for 90 days as both nations continue negotiations toward a more comprehensive trade agreement.

Additionally, the U.S. has initiated a Section 232 national security investigation into pharmaceutical supply chains. This ongoing probe aims to assess vulnerabilities arising from foreign dependencies, particularly concerning Chinese APIs and finished drugs. The outcome of this investigation could lead to further trade actions or policy shifts affecting the pharmaceutical industry.

Introducing such tariffs could provoke legal challenges, particularly from EU nations and multinational firms operating under WTO protections.[8] China has formally filed a lawsuit with the WTO over tariffs imposed by the Trump's Administration on Chinese goods. Legal experts suggest such measures may constitute a violation of the General Agreement on Tariffs and Trade (GATT), which could trigger formal disputes and retaliatory litigation. This regulatory uncertainty compounds litigation risk inherent in the supply and distribution contracts where suppliers and customers could be subject to disputes associated with supply chain disruption issues such as delayed delivery and failure to meet the contractual quantity or quality. Some are citing the recent tariff actions as force majeure events. Importantly, the current 90-day suspension may not hold, and stakeholders must prepare for a reversion to higher rates.

[8] https://www.nbcwashington.com/tag/decision-2024/

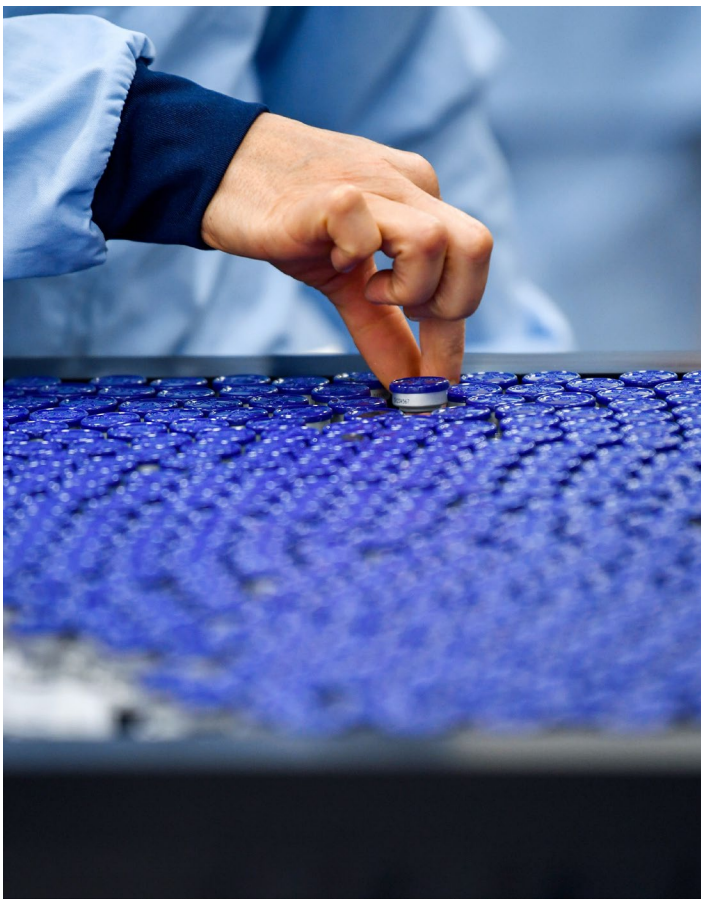
Economic and Investment Implications

The uncertainty surrounding U.S. trade policy is reshaping corporate investment priorities.

While some firms are accelerating capital expenditure in the U.S., others are delaying or reevaluating European investment plans. According to Investopedia, FDI inflows into EU pharma sectors have slowed amid geopolitical volatility.[9]

Meanwhile, currency fluctuations, cost inflation and strategic risk aversion have complicated long-term planning. The EU's ability to attract new manufacturing and R&D centers may be hindered unless clear policy signals and incentives are offered.

[9] https://www.investmentmonitor.ai/news/fdi-in-europe-is-at-its-lowest-in-the-past-nine-years-survey



> Regional trade agreements with ASEAN, India or African nations may accelerate in response to U.S. volatility.

Retaliatory Measures and Global Trade Dynamics

The EU has hinted at imposing reciprocal tariffs on U.S. pharmaceutical and medical technology imports if the U.S. proceeds with its protectionist agenda.

Escalation risks creating a tit-for-tat trade war, reminiscent of the U.S.-China dispute under Trump's first term. A prolonged conflict could depress global investment in life sciences and destabilise access to medicines in developing markets.[10]

Moreover, broader global trade dynamics could shift as the EU seeks to deepen ties with non-U.S. partners. Regional trade agreements with ASEAN, India or African nations may accelerate in response to U.S. volatility.

[10] https://www.feinberg.northwestern.edu/sites/ipham/events/ipham-health-summit-2025.html

Increased Pressure on Gross Margin and Operating Profit Margin

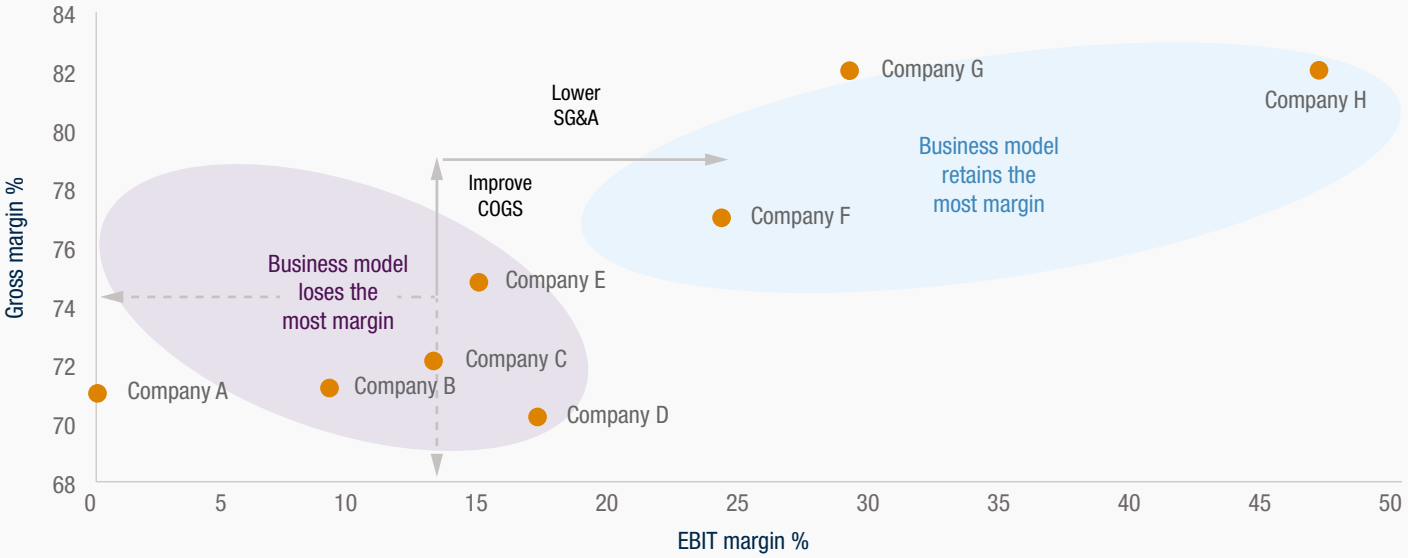
Growth equity story is the single biggest driver of value in the pharmaceutical industry.

As EU-headquartered pharmaceutical companies continue to push for higher organic growth through R&D, manufacturing and commercial launches, the need for funding will increase dramatically across the industry and further augment the cost base.

There are some major efficiencies across the industry that can be harvested. If companies fail to move now, the effect of the tariffs can completely deplete companies' gross margin and EBIT margin.

The analysis below identifies the impact of 20% or higher tariffs could have on the EBIT margins of European pharmaceutical companies. In some cases, such tariffs could completely eliminate EBIT margins.

Gross margin to net margin erosion in the pharma Industry



Companies for which a 20% or higher tariff would entirely eliminate their EBIT margin

Companies with higher EBIT margins that, even under a 20% or greater tariff, would remain EBIT-positive

Note: Company G and Company A are U.S.-based pharmaceutical companies, so their margins are unlikely to be affected by potential tariffs imposed on European pharmaceutical firms.

Source: A&M analysis, Orbis.

Six recommended actions for the next six months:

1 Map supply chain dependencies and diversify

Conduct a detailed analysis of dependencies on U.S.-bound APIs and finished products. Identify nearshoring opportunities, such as partnerships with regions like Africa or India, to reduce reliance on U.S. markets and mitigate risks.

2 Optimise working capital

Focus on reducing Days Sales Outstanding (DSO) and Days Inventory Outstanding (DIO) to improve cash flow. This can free up millions in interest costs and enhance liquidity, providing a financial buffer against tariff impacts.

3 Implement fixed-price contracts

Reassess existing contracts to identify opportunities for fixed-price or lump-sum agreements. Benchmark these against market rates to stabilise costs and protect margins from inflationary pressures.

4 Accelerate cost-reduction programmes

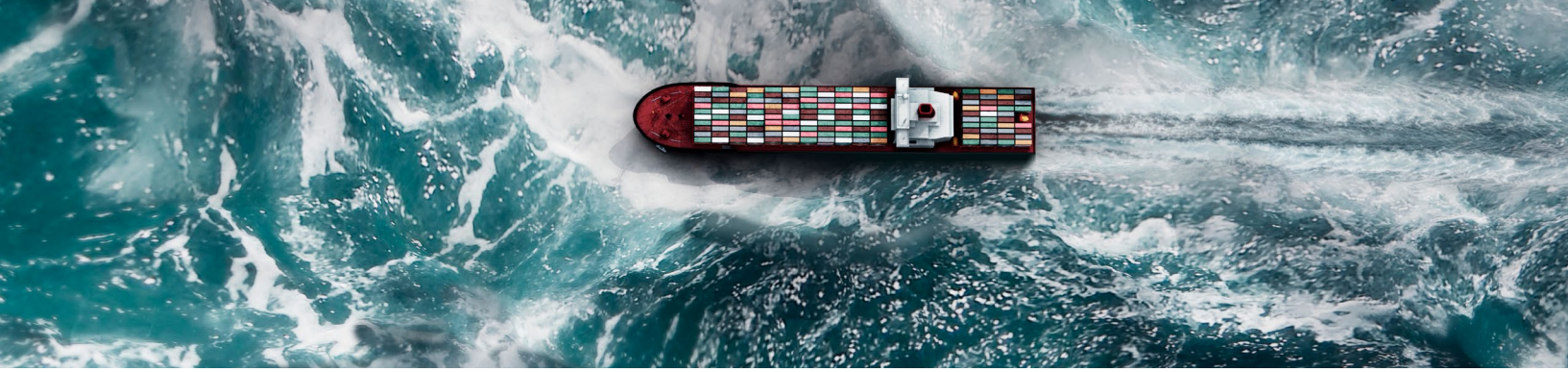
Launch initiatives such as lean operations and procurement savings to eliminate inefficiencies. This will help offset rising costs and improve operational margins in the short term.

5 Develop pricing models in U.S. dollars

For suppliers whose cost base is not denominated in USD, create pricing models that account for exchange rate fluctuations. Establish a worst-case scenario for contracts to normalise and embed exchange rate risks over their duration.

6 Explore a broad range of tariff mitigation strategies

Companies should evaluate multiple avenues to reduce tariff exposure, including leveraging free trade agreements, utilising duty drawback and exemption programmes, restructuring supply chains, revising product classifications to minimise tariff rates, and engaging in proactive trade compliance and tariff engineering. A comprehensive approach helps optimise cost savings and maintain supply chain resilience amid evolving trade policies.



Conclusion

Trump's proposed pharmaceutical tariffs pose serious challenges to the European pharmaceutical and biopharmaceutical sectors.

The potential consequences are wide-ranging and include disruption to finely tuned supply chains to regulatory uncertainty and strategic dislocation. European stakeholders, both public and private, must prepare for a new era of trade fragmentation. Coordinated responses, investment in regional resilience and legal preparedness will be essential to preserving Europe's competitiveness in global pharmaceuticals.

While a temporary 90-day tariff reduction offers some reprieve, companies should remain vigilant. Policy could rapidly shift again, and long-term planning must account for both protectionist risks and global trade realignments.

How A&M can help

A&M has worked with some of the largest European and global organisations to transform operations and accelerate growth through decisive action.

A&M's teams across Health and Life Sciences, Private Equity Performance Improvement, Corporate Transformation and Disputes & Investigations bring decades of experience and fact-based, action-oriented leadership to create value and drive rapid results for healthcare businesses.

Our offerings include:

1 Strategic Scenario Planning & Risk Modelling

a. Build financial impact models.

2 Supply Chain Diversification

a. Map dependencies on U.S.-bound API and finished product exports.

b. Identify nearshoring opportunities (e.g., EU-Africa, EU-India).

c. Evaluate dual-plant strategies (split U.S.-EU production to localise risk).

3 Operational Optimisation

a. Run cost reduction programmes (lean ops, procurement savings).

b. Accelerate automation and digital transformation to offset rising costs.

c. Advise on site consolidation or restructuring to eliminate inefficiencies.

4 M&A and Strategic Partnerships

a. Identify U.S. acquisition targets to enable market entry/localisation.

b. Advise on cross-border joint-venture structures to align with local production mandates.

c. Support integration planning post-acquisition.

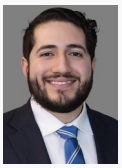
To learn more, reach out to our key contacts listed below.

KEY CONTACTS

Kayisha Payne
Senior Associate, HLS UK
kpayne@alvarezandmarsal.com

Ana Lucia Yau Fu
Director, Disputes and Investigations UK
lyaufu@alvarezandmarsal.com

Marija Simovic
Managing Director, HLS UK
msimovic@alvarezandmarsal.com



Louis Conde
Director – Trade and Tarriff, US
lconde@alvarezandmarsal.com

Jan Diederichsen
Senior Director, HLS UK
jdiederichsen@alvarezandmarsal.com

Follow A&M on:

465753_49490/May 25
9689_Stg03

ABOUT ALVAREZ & MARSAL

Founded in 1983, Alvarez & Marsal is a leading global professional services firm. Renowned for its leadership, action and results, Alvarez & Marsal provides advisory, business performance improvement and turnaround management services, delivering practical solutions to address clients' unique challenges. With a world-wide network of experienced operators, world-class consultants, former regulators and industry authorities, Alvarez & Marsal helps corporates, boards, private equity firms, law firms and government agencies drive transformation, mitigate risk and unlock value at every stage of growth.

To learn more, visit: **AlvarezandMarsal.com**

ALVAREZ & MARSAL
LEADERSHIP. ACTION. RESULTS.℠