BHUTA SHAH & CO LLP

PHARMA TARIFF 2025

US President Donald Trump's announcement of a 100% tariff on imported branded and patented pharmaceutical products, effective October 1, 2025, marks a dramatic turn in global pharmaceutical trade and industrial policy. Below is a detailed, structured note capturing the full spectrum of its implications, highlighting cause, effect, stakeholders, trade shifts, and global responses.

1. The Tariff – An Overview

- Imposes a 100% tariff on all imported **branded and patented pharmaceutical products** entering the US.
- **Exemption** for companies **"actively building"** (breaking ground or under construction) US pharmaceutical manufacturing sites.
- Seeks to re-shore pharmaceutical manufacturing, reduce supply chain dependence, protect national security, and generate domestic jobs.
- Aims to address the US trade deficit and stimulate industrial investment by leveraging tariff tools.

2. Stakeholders and Key Players

I. **US Government:** Sets industrial and security-driven trade policy.

II. **Pharma Multinationals:** US-bound exporters - particularly European (Novartis, Roche, Bayer, Sanofi), and Indian (Sun Pharma, Dr. Reddy's, Cipla, Lupin, Aurobindo).

III. **Indian Exporters:** Generate nearly 40% of pharma export revenue from US markets.

IV. **European Governments** *(EU, Ireland, Germany, Switzerland)***:** Major suppliers to the US pharma market; EU negotiating tariff ceilings.

V. **US Consumers and Healthcare Providers:** Heavily reliant on imported branded, patented, and generic drugs.

VI. **Investors:** Global markets and pharmaceutical stockholders.

Key Companies Affected:

Company	Home Country	Product Category	US Operations	Share of US Revenue	Exemption Readiness
Novartis	Switzerland	Branded/Patented	Manufacturing	High	Yes-US plant
Roche	Switzerland	Branded/Patented	New US Facility	High	Yes-US plant
Sun Pharma	India	Generics/Specialty	US subsidiaries	High	Yes
Dr. Reddy's	India	Generics	US facilities	High	Yes
Sanofi	France	Branded/Patented	US investments	High	Partial

3. Global Demographics

US Import Sources (2024–25):

- **Total pharma imports:** $213 Bn
- **Top branded/patented suppliers:** Ireland, Switzerland, Germany, India, Italy, Denmark, UK.
  - Ireland: **~$50 Bn**
  - Switzerland: **~$19 Bn**
  - Germany: **~$17.1 Bn**
  - India: **~$12.5 Bn**

India's Pharma Export Profile:

- **FY2025:** $9.8–10.5 Bn to US, 39–40% of total pharma exports.
- **Focus:** Generic formulations (tablets, capsules, antibiotics, injectables), biosimilars, and some branded/contract formulations.
- Indian companies operate manufacturing/ subsidiary bases in the US-for Sun Pharma, the US accounts for 31% of global revenue.

Source : OEC Website, TimesofIndia

European Dynamics:

- EU accounts for 60% of US pharma imports, especially high-value branded and patented products.
- EU-US July 2025 trade deal **caps pharma tariffs at 15% for EU exporters,** a unique carve-out not extended to others; but ambiguity remains until implemented.
- European majors have accelerated US investment to avoid tariff exposure.

4. Export-Import Impact

On India:

- **Generics Shielded:** Generics, which comprise a major part of India's pharma exports, are not directly targeted - the impact on the largest segment is limited "for now".
- **Branded Generics Ambiguity:** There's confusion over "branded generics" - drugs technically generic but marketed under a specific brand-posing compliance and documentation uncertainties at

customs.

- **Thin Margins and Supply Chains:** Any future extension of tariffs to complex generics and formulations would squeeze margins for Indian exporters, many of whom already run on low profitability in the highly competitive US market.
- **Contract Manufacturing:** Indian companies manufacturing or supplying APIs (Active Pharmaceutical Ingredients) and formulations as contract manufacturers for MNCs may see supply chain and revenue volatility if branded products are flagged for tariffs.

On Europe:

- **Tariff Capping through EU Deal:** Most EU pharma exports to the US are slated to face a maximum 15% (not 100%) tariff; this covers giants in Ireland, Germany, and Switzerland.
- **US-based Plants:** Many European firms have initiated or expanded US production, providing exemption coverage. Novartis, Roche, and AstraZeneca have all built or broken ground on new US plants since 2023.
- **Increased US Investments:** More than a dozen major global pharma companies have pledged over $350 Bn in US manufacturing by 2030.

5. Pharmaceutical Stock Market Impact

- **India:** Nifty Pharma Index slid ~2% following the announcement; Sun Pharma fell 3%, and all 20 major listed Indian drugmakers saw declines.
- **Europe:** Roche, Novartis, Merck, Bayer fell 1–1.5% on the day. The muted response was partly due to EU deal assurances.
- **Asia-Pacific:** Japanese majors Sumitomo and Otsuka dropped over 2%, reflecting anxiety over global trade volatility.
- Australia: CSL dropped 1.9% to a six-year low.

6. BSC Analysis on the Impact:

Short-term:

- Double costs for US importers and consumers for targeted branded/patented drugs, not exempted via US-based investment.
- Risk of inflation, supply chain shocks, potential shortages in patented/specialty drugs.
- Incentivizes immediate acceleration of "on-shoring"—breaking ground on US facilities to claim exemption.

Medium-term:

- Shift of pipeline and future launches to US manufacturing.
- Consolidation among mid-tier exporters unable or unwilling to invest locally.
- US firms may see a longer window of high prices for complex/specialty meds.

Consumer and Healthcare System:

- US patients face higher drug prices and supply risk, particularly for drugs where US-based production is uneconomical or slow to establish.
- Potential pricing flexibility for generics, possibly benefiting Indian exporters in the near term.

Opportunity for India:

- Sidelining of branded imports may initially boost demand for Indian generics, filling some shortages caused by stagnation or withdrawal of European-origin patented products.
- If US tariff policy fosters biotech/ medtech de-risking, EU and Indian pharma may seek each other for diversified sourcing, R&D, and contract manufacturing, especially as European firms look to lower input costs - pushing demand for Indian APIs and intermediates.
- Indian companies may focus on higher-value advanced intermediates, biosimilars, and joint-ventures with European counterparts.

Strategic Partnerships and M&A:

- Future alliance and M&A opportunities may blossom between EU and Indian pharma, with focus on cost optimization and regulatory compliance in the US and other developed markets.

7. Policy and Legal Uncertainty

- **Grey Areas:** Ambiguous definitions ("branded generics"), as well as Section 232 probe outcomes, could alter future tariff boundaries.
- **US Election Cycle:** As a matter of policy continuity, further clarifications / amendments may arise post-election and after court challenges from aggrieved stakeholders.
- **EU Tariff Cap Enforcement:** While the EU-US deal caps at 15%, implementation details—and whether "branded brands" vs. "branded generics" can be distinguished cleanly—remains under negotiation and vigilance.

The BSC Outlook

In the changing times, it is important for Indian pharma players to explore innovative ways and structures to remain competitive, absorb external pressures, and safeguard long-term growth. While the recent tariff developments still carry ambiguity, proactive steps today can help optimize opportunities and mitigate risks.

At the same time, global expansion strategies such as leveraging European subsidiaries to obtain an "EU origin tag," or even longer-term options like selectively exploring US-based manufacturing, remain open avenues.

Given the multi-dimensional nature of this issue - from taxation to entity structuring, from M&A opportunities to geographic expansion - this moment calls for a clear, tailored roadmap.

We would be glad to continue this discussion one-on-one and help co-create a practical strategy aligned to your business priorities.

Some thoughts for deliberation are:

1. Exploring whether products can be exported to new geographies in semi-finished form to reduce exposure to direct tariffs.
2. Availing the benefits of Indian government schemes to create a financial cushion against external tariff shocks.
3. Designing innovative entity and transaction structures to smartly navigate and carve out tariff applicability.
4. Ring-fencing the generic drugs portfolio before it potentially comes under pressure, given its significant share in India's pharma exports.
5. Special agreements with the US where in exemptions can be claimed against a price concession. Pfizer has entered into an agreement with the US government to provide price concessions/discounts on its pharma products in the US (between 50% -90%) against which the Company shall enjoy reduced tariffs for a period of 3 years.

BHUTA SHAH & CO LLP

Contact us

Harsh Bhuta
(Managing Partner)
harsh.bhuta@bhutashah.com
+91 98208 71671

Niraj Soni
(Senior Vice President)
niraj.soni@bhutashah.com
+91 98216 68690

Krish Shah
(Associate)
krish.shah@bhutashah.com
+91 90040 65262

Our Locations

Mumbai
Head Office
302-304, Regent Chambers, Nariman Point,
Jamnalal Bajaj Marg, Mumbai – 400 021.

Corporate offices
431-432, 3rd Floor, Solitaire Corporate Park no. IV,
Chakala, Andheri East, Mumbai – 400 093.

1501, Oriana Business Park, Road No 22,
Wagle Estate, Thane West – 400604.

New Delhi
E-6, First floor, Connaught Place, New Delhi – 110 001.

Ahmedabad
813, Shree Balaji Heights, Besides IDBI Bank,
C G Road, Ahmedabad – 380 006.

Pune
501-502, Building # B3, Pride Kumar Senate II,
CTS # 970, Senapati Bapat Road, Shivajinagar,
Pune- 411 016.

Jaipur
309-B, Windsor Plaza, Sansar Chandra Road, Jaipur,
Rajasthan – 302 001.

Bengaluru
151, 5th Floor, Moksha Mansion 1st Cross, Sarjapur,
Sarjapur - Marathahalli Road, 1st Block Koramangala,
Bengaluru, Karnataka – 560 034.

Hyderabad
VVC Konark, 2nd Floor, Plot, 5, Hitech City Road, Jubilee
Enclave, Madhapur, Hyderabad, Telangana – 500 081.

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Tel: +91 22 4343 9191

E: mail@bhutashah.com

W: www.bhutashah.com