

CAPITOL STREET

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Tariffs: MedTech & Biopharma Impacts

Outlook Going Forward

Relevant Companies



»» Our Take & Next Up

President Trump tariffs impact MedTech, our take on Biopharma is below as well (Mexico tariffs punted to Mar 1, a one-month delay, with troops-addressing-fentanyl concession). With the announcement of a 25% tariff on Mexico and Canada (10% duties on energy), we wanted to provide our take from a policy perspective. We note that Canada & Mexico are set for retaliation measures as the tariffs risk pushing trading partners into recession ([here](#)) as both nations send 80% of their exports to the US. China is preparing its response (10% tariffs). Going into this week, most felt the tariff was a negotiation tactic hence the surprise to US markets. If final, a trade war begins. We think (a) critical products, such as medical products, may become exempted (b) we see the blanket tariff as being modified or entirely canceled going forward as Trump sees the impacts to the US (inflation, etc) & gains concessions from foreign nations (c) Mexico impacts MedTech the most, with impact difficult to assess but we note USMCA (US-Mex-Can) agreement is up for renegotiation in 2026 ([here](#)) (d) our take on Biopharma & Generics is included, per Trump comments last week at GOP retreat, and would be ill-advised given critical drug shortages (particularly on generic front).

»» Key Points

EXEC ORDER

President Trump is set to initiate tariffs of 25% on imports from Mexico and Canada and an additional 10% on Chinese imports as of Feb. 1 (Mexico delayed by one month, moments ago via Truth Social ([here](#))) Note a phased timeline, with some like alcohol, coffee clothing, starting Tues Feb 4 and more scheduled to kick in during a second wave – cars, trucks etc.).

- We think some tariffs will be reversed or modified following further negotiations and concessions by U.S. trade partners, especially Canada and Mexico.
- Although Canada and Mexico are fighting back with retaliatory tariffs, we believe there is a deal to be made with increased efforts to stop illegal immigration and the flow of fentanyl into the U.S (White house [here](#)).
- Recall the Trump Administration backed off certain tariffs during their first term and recently backed off 25% tariffs on imports from Colombia following [concessions](#) by the country.

MEDTECH

Mexico tariffs impact MedTech the most ([here](#)) as much nearshoring has taken place since COVID. The 25% tariff on Mexico will likely obtain the most investor focus considering it's the largest source country of the ~40% of Medical devices & technologies in the US that are imported. Even at this point we feel it's still difficult to formulate a specific impact to the industry and/or specific companies.

We could easily see Trump pulling back on tariffs to the medical device industry as it is seen as critical to human health. Some have opined that square footage is a way to project impact. For some the pricing likely can be passed on to end users to some degree; we believe that capital items, while others that work in fixed reimbursement categories or have longer-term contracts probably may not have much flexibility. Clearly smaller manufacturers may be impacted more than larger ones.

What is transfer pricing? Transfer pricing is a technique used by multinational corporations to shift profits out of the countries where they operate and into tax havens. The technique involves a multinational selling itself goods and services at an artificially high price to avoid tax in higher jurisdictions. We expect companies to use similar strategies when it comes to pricing of goods exposed to tariffs (i.e. there's much a company can do to lower its exposure, e.g. value of non-finished vs. finished good, etc.).

BIOPHARMA

President Trump noted last week at a GOP retreat "In the very near future, we're going to be placing tariffs on foreign production of computer chips, semiconductors, and pharmaceuticals to return production of these essential goods to the United States of America... If you want to stop paying taxes or the tariffs, you have to build your plant right here in America. That's what's going to happen at record levels. We're going to have more plants built in the next short period of time than anybody ever envisioned before, because the incentive is going to be there, because they have no tariff whatsoever." ([here](#))

It is unclear exactly what Trump is targeting, but the implications could be significant for generics, APIs, and potentially branded drugs. It's a broad statement, and we don't have enough specifics to say otherwise. Pres. Trump believes that tariffs could act as a carrot-and-stick approach to incentivize manufacturers to move production back to the U.S. (and that subsidies, like those in the *CHIPS* and *Science Act*, aren't necessary).

It gets murky quickly for pharmaceuticals & generics API and finished product.

- Is Trump referring to *all* drugs—both branded and generic—or just generics? Given that around 90% of generics consumed in the U.S. are made abroad, we believe that it is safe to assume they're included. India,

which supplies 40% of U.S. generics, would definitely feel the hit. And while China does manufacture some finished generics, they're more dominant in producing active pharmaceutical ingredients (API).

- Would APIs be included in this tariff plan? That's not entirely clear (AAM notes it may be both API and finished product [here](#)), since APIs aren't finished drug products. Plus, any U.S.-based manufacturing relying on imported APIs would be impacted, which kind of undermines the whole "onshoring production" goal.

Nothing in Trump's comments explicitly confines actions to generics. The majority of branded drugs sold in the U.S. are also made overseas, mostly in high-income countries with strict manufacturing standards. Approximately one-third of the top 100 branded drugs are made in the U.S., while the rest come from places like the EU, Canada, Japan, Singapore, Switzerland, and the UK. Without more details, we can't rule out the possibility that these tariffs could apply to branded drugs too.

OTHER RECENT NEWS

On Jan 15, the US Commerce Dept Bureau of Industry and Security announced ([here](#)) that they are imposing export controls on biotechnology equipment and related technologies because of concerns with China about national security, AI, and data science. This takes immediate effect. The US believes China can use US technology to strengthen its military and weapon capabilities with AI. Specifically, the export controls will restrict shipments of high-parameter flow cytometers, cell sorters, and mass liquid chromatography spectrometry equipment to China and other countries without a US license. This equipment can generate high-quality biology data in huge volumes, which can help the development of AI.

This decision to impose export controls on China aligns with the US's current initiatives to protect health and general information from foreign adversaries. The US also wants to grow less reliant on China. Similar decisions have followed.

- On Monday, January 13 ([here](#)), the Commerce Dept further restricted advanced computer chip and tech exports from China. They updated new license exceptions and updates to the Data Center Validated End User authorization. The emphasis being that the US wants to control the distribution of American AI globally to closely allied countries.
- The week of Jan 13, US lawmakers told the Commerce Dept to consider limiting the export of US biotech to the Chinese military.
- In August, US lawmakers advised the FDA to heighten scrutiny of US clinical trials done in China to prevent the risk of intellectual property theft and forced participation of the Uyghur group ([here](#)).

Recall BIOSECURE Act (our take [here](#) and [here](#)) prevents the US from working with Chinese genomic and CDMOs. The bill was tweaked in 2024 to protect biopharmaceutical companies but did not pass. As a reminder five specific Chinese biotech companies: BGI, MGI, WuXi Biologics, Wu Xi AppTec, and Complete Genomics ([here](#)) are impacted by the legislation that was unable to cross the finish line in 2024 but may see the light of day in 2025+.

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