

# CAPITOL STREET

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## Biopharma: International Pricing & Tariffs Are Intertwined

Headwinds Pondered with MFN Likely in Some Form/Shape, Tariff Outlook

Relevant Companies



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### »» Our Take & Next Up

**The dual threat of international reference pricing (MFN, IPI) and pharmaceutical tariffs persist.** Tariffs (in general) are being discussed among think tanks and policymakers as a method of enforcement in conjunction with MFN/IPI. We still believe that international pricing reform is on the horizon from the Trump administration and may be implemented through CMMI or through the Medicare drug negotiation program for 2028 when Part B therapies become included). The administration may resort to including it as a key factor in the 2028 drug negotiation process.

**Pharmaceutical tariffs are likely coming into the fray ([here](#)) at some point later on (post April 2) as the administration evaluates reciprocal tariffs, the "Dirty 15" & continues its push for a solid domestic biopharma manufacturing presence (LLY, JNJ).** With recent investments in US-based manufacturing (LLY, JNJ), the industry is hoping the announcements will delay/kill tariffs to allow for a phased-approach. Tariffs are more likely to be on finished products (vs API) which give branded manufacturers some flexibility to fill and finish in the US as a way to evade tariffs. However, we will likely see an exacerbation of drug shortages as generic manufacturers may withdraw from the US market due to the cost burden, and/or become impacted if a reciprocal tariff is imposed on, say, India (likely).

### »» Key Points

**Trump's major concern (inside of healthcare and out) is that other countries are getting a "better deal" than the US.** This is why Trump and advisors connect MFN and biopharmaceutical tariffs. Projected impact is below.

- Based on 2024 data, PwC [estimates](#) that the proposed pharmaceutical (likely on finished products) tariffs would generate \$76 B in annual revenue for the U.S. government if imports remain steady.
- The Office of the Assistant Secretary for Planning and Evaluation predicts that drug prices in other countries would [increase](#) in reaction to the MFN Model, potentially up to the drug's average price in the US. This makes MFN/IPI an attractive drug pricing reform as it may potentially both lower US prices while

*raising* the amount paid globally. These strategies together fulfill the aim to maintain drug development incentives while raising revenue for the federal government.

## TARIFFS

**Pharmaceutical tariffs (25%) are likely to be delayed beyond April 2, as Trump assesses next steps.** The administration is currently conflicted on the best way to implement additional tariffs. Tariffs (in general) are being discussed as a method of enforcement in conjunction with MFN/IPI by America First Policy Institute, a conservative think tank. We note that pharmaceuticals have been exempt from tariffs for decades in the US and in other industrialized countries. Tariffs – we believe -- are likely to be on finished products (vs API). This gives drug manufacturers some flexibility as they can fill & finish and complete pill pressing in the US to count as US manufactured.

**Phased-in MFN and/or tariffs would make more policy sense as it takes months & years to establish domestic manufacturing capacity from US-based biopharma companies.** We note the recent announcements from LLY & JNJ as commitments to delay/kill tariffs. LLY will invest \$27 B to build 4 new domestic plants that will take several years to complete. JNJ announced they will invest \$55 B over the next 4 years into 3 new manufacturing plants and R&D.

**Drug shortages are exacerbated by pharmaceutical tariffs.** We note that it is very difficult to enact a tariff on generic vs. brands. Pharma tariffs on finished products will strongly impact profitability of generics, most of which are manufactured abroad (India & China). The potential cost burden could lead to increases in generic product withdrawals from the market. Small biotechs, even pre-clinical companies, would be hurt by pharmaceutical tariffs indirectly as increased investments in domestic manufacturing will likely be offset by belt-tightening by large companies.

## MFN

**Most Favored Nation (MFN) implementation options are being floated (AFPI) -- See below.** America First Policy Institute's (AFPI) recent brief focus ([here](#)) on reforms that encompass Most Favored Nation, CMMI's previous International Pricing Model, and weaponization of tariffs. The report comes from a think tank founded by officials from Trump's first administration (Linda McMahon, Larry Kudlow, and Brooke Rollins) and may be used as a blueprint of what the administration may enact.

### 1. A limited MFN through CMS's Center for Innovation (CMMI).

- The countries selected to calculate the MFN price would be countries within the OECD with a GDP per capita that is at least 60% of America's GDP per capita. Prices could be determined by net drug prices and the drug selection criteria can vary e.g., top Medicare spend, most expensive health conditions, drugs funded through the NIH.
- Another potential, focused implementation is focusing MFN pricing exclusively on new brand-name drugs (less likely). This MFN model would apply to a new drug once a certain number of similar countries decided to cover the new drug under their national health programs. This is less likely to occur due to the need to incentivize innovation.

**2. If CMMI is unable to pull off MFN, it can be implemented through the IRA drug negotiation program.**

We have previously discussed the possibility for the Trump administration to potentially implement MFN by including international prices as a price setting factor for negotiations (our take [here](#)). CMS has flexibility in implementing the program and could include lowest international prices as a factor in the 2028 draft guidance. CMS is unlikely to set the maximum fair price (MFP) directly to the lowest international prices, but this route would result in significantly lower MFPs.

**3. A commercial MFN mandate is unlikely, in our view.** AFPI also proposes establishing MFN for all consumers, influenced by the *Transparent Drug Pricing Act* ([here](#)) (co-sponsors Sen. Hawley (R-MO) and Scott (R-FL)). This bill would prohibit drug manufacturers from charging a list price for any drug approved by the FDA that exceeded the lowest list price of the same drug in Canada, France, the UK, Japan, or Germany. The bill failed to gain momentum in 2019.

**4. International Pricing Index (IPI) Model Part B demo may be revived and may be less onerous than MFN (average price vs. lowest price).** The model would have phased down the Medicare payment amount for selected Part B drugs to a target price derived from the international price index and changed the 4.3% (post-sequester) drug add-on payment (\$19.7 B in reduced spending over 5 years). Originally proposed in 2018 ([here](#)), it was rescinded prior to implementation. CMS estimated that relying on an international price index and setting a target price rather than using ASP would have resulted in roughly a 30% savings in total spending for the selected Part B drugs in the model.

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