

# HOW TARIFFS IMPACT ACCESS TO MEDICINES

By Matthias Bauer and Philipp Lamprecht

The Covid-19 pandemic has illustrated the importance of open international trade for access to all kinds of medical supplies. Import tariffs on pharmaceuticals, medical goods, vaccines and [pharmaceutical ingredients](#) undermine access due to their amplifying effect on end price (up to [80% of the ex-factory sales price for medicines](#)). High tariffs also reduce medicine supply by undermining exports and imports. This translates into fewer choices and less availability at the pharmacy counter or hospital.

This brief gives an overview of the current picture of tariffs on pharmaceuticals and gives a forecast of how access to medicines would change if tariffs were increased or eliminated. It also considers other medical technologies, which are proving crucial during the Covid pandemic. The full version of this research note is available [here](#).

## WTO bound and applied tariffs on medicines and other medical products are still high.

Although applied tariffs on pharmaceuticals and Active Pharmaceutical Ingredients (APIs) have been [falling throughout the world](#) recently, bound rates remain high, meaning governments can legally increase them at any time. The [latest available data from the WTO](#) shows a global average Most Favoured Nation (MFN) applied tariff on medicines of 2.1% compared to an average bound rate of 22% - ten times higher. Substantial cuts in bound rates to align them with actual rates would thus promote value chain stability and promote trade in health products.

Figure 1: Applied (weighted) average tariffs by country, APIs and pharmaceuticals

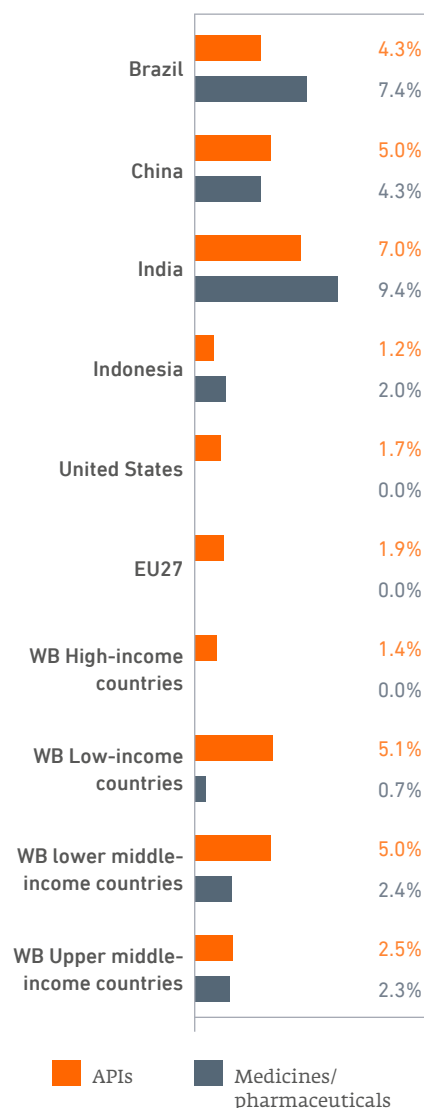
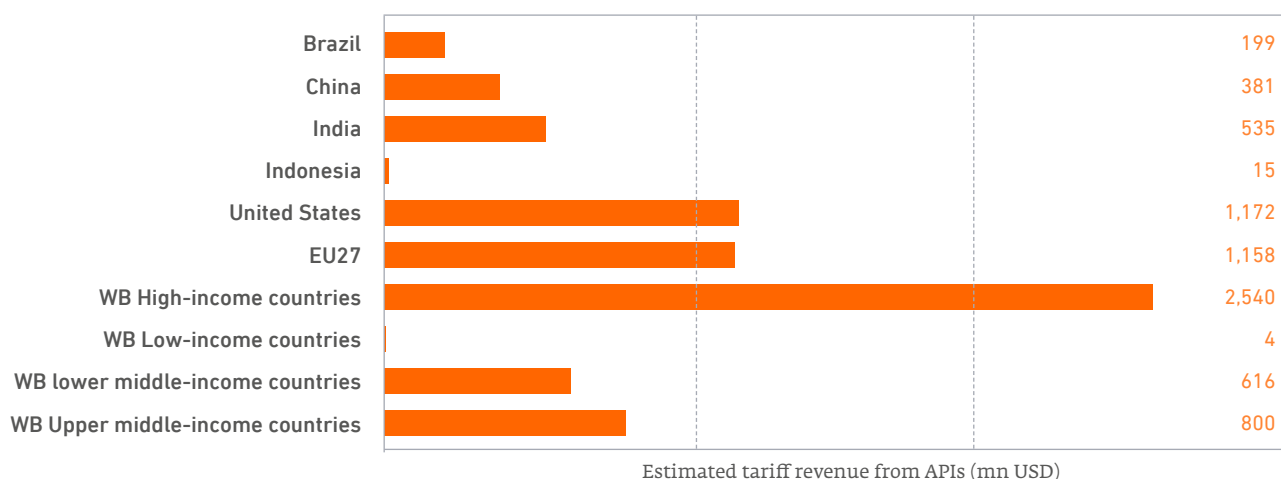


Figure 2: Revenue from tariffs on APIs



Authors' estimations based on World Bank WITS tariff and UN Comtrade data.

## Economic effects of tariffs on medicines and inputs are significant.

Current average applied import tariffs on pharmaceuticals and APIs are still very high for many countries, and highest in low and middle-income countries (Figure 1)

While tariffs on APIs are generally low or zero for the EU and the US, high import volumes, and the diminishing scope of coverage of the Zero-for-Zero Agreement, still result in a substantial tariff burden for importers and pharmaceutical manufacturers respectively, amounting to USD1.16bn in 2018 for imports to the EU and USD1.17bn for imports to the US (Figure 2). These costs are passed on to manufacturers and ultimately payers and patients.

In addition to reducing end prices, the full global elimination of import tariffs on both pharmaceuticals and APIs would encourage companies, including producers in low- and middle-income countries, to expand production and diversify medicinal product portfolios. This in turn would benefit patients by providing access to a broader range of medicines.

## Modelling the impact of various tariff scenarios for pharmaceuticals, APIs and medical supplies

Our contention that the elimination of tariffs on pharmaceuticals, APIs and medical supplies would promote global access to medicines is borne out by economic modelling undertaken for this paper. We model the following three scenarios. Full data and results are available [here](#).

## Scenario 1: Tariff increases by US and EU, illustrating risks of trade retaliation

A scenario in which the EU and US increase tariffs to 25% as part of retaliatory action would have significant distortive effects, including in India and China, that could significantly reduce global supply. Chinese pharmaceutical exports would decrease by 81%, while India's would fall by 35%. Given the importance of China and India for supplying the global generic market, these declines would translate into reduced access to medicines and higher prices in many jurisdictions.

## Scenario 2: Global actions to increase tariffs to bound rates would undermine affordable access to medicines

Increases of import tariffs to current bound tariff rates would cause significant losses in imports in every country, leaving many countries with shortages in the supply of medicines, active ingredients and medical goods. Lower income countries would be hardest hit suffering a 53% fall in imports, followed by upper-middle income countries which would fall by 24.5%.

## Scenario 3: The global elimination of import tariffs on medicines, APIs and medical goods would improve access to medicines

Our estimates show that the full elimination of import tariffs on medicines and APIs globally would improve global access, including in low and middle-income countries. Patients in upper-middle income countries would enjoy an increase of 4.4% in imported medicines implying increases in the availability and variety of medicines. Patients in Brazil would enjoy 7.5% more pharmaceutical imports; China 7.1% and India 5%. Innovative treatments as well as novel APIs and medical goods would be traded at lower costs, improving market penetration and patients' access globally.

## What next? Improving access to medicines by eliminating tariffs on medicines and APIs.

In light of the pandemic, many countries have put forward proposals to reduce or eliminate tariffs on medicines and APIs, as well as medical goods, such as updating the WTO Pharmaceutical Agreement or initiatives within regional fora such as APEC.

Whatever the initiative, eliminating tariffs on medicines and inputs creates material benefits for patients both in terms of cost and availability of supply. Tariff elimination should therefore be an important component of any effort by governments to improve trading rules to support public health objectives.

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