The evolving tariff threat: Impact on med-tech and life science industries

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February has brought rising concerns over tariffs, with potential consequences extending well beyond traditional industries. The United States has imposed new tariffs on steel and aluminum,[1] and the threat of higher tariffs on Canadian products looms large.[2] As tensions rise, some Canadian provinces have begun exploring retaliatory measures, such as limiting the U.S. based business' access to provincial procurement contracts.[3] At the federal level, the Canadian government has pledged to impose 25 per cent retaliatory tariffs on $155 billion worth of American goods,[4] including certain medical devices and medicated products.[5]

With further tariff measures anticipated under President Trump's trade policies[6] and potential retaliatory measures from Canadian authorities, the med-tech and life sciences sectors face increasing risk. The volatile trade environment could disrupt supply chains, raise production costs, and challenge cross-border integration within these critical industries.

The U.S.-Canada life sciences and med-tech trade landscape

The relationship between the U.S. and Canada in life sciences and med-tech is characterized by close cooperation and cross-border collaboration. The U.S. is a major importer of Canadian medical devices, pharmaceuticals, and biotechnology products, while Canada plays a key role in manufacturing and innovation. In 2024, Canada's total export of medical equipment, supplies, and control instruments to the United States exceeded $6.8 billion. Meanwhile, exports of pharmaceutical products, as well as health and personal care items, from Canada to the U.S. surpassed $12.6 billion in the same year. These figures account for nearly 70 per cent of Canada's total exports of the same products to all countries, making the U.S. the largest market for Canadian med-tech and life sciences businesses.[7] Recent tariff threats, including the possibility of a 25 per cent tariff on medical products, could significantly disrupt the flow of goods and technologies between the two countries.

Additionally, the U.S. med-tech industry is heavily reliant on components imported from Mexico, which are used to assemble finished products for either domestic consumption or for export to countries like Canada.[8] This trade dependency underscores the importance of maintaining a smooth, tariff-free exchange to avoid delays or cost increases in the med-tech supply chain. The integration of U.S. and Canadian life sciences industries in research, development, and manufacturing makes the potential tariff disruptions even more concerning.

The role of CUSMA in med-tech and life sciences trade

The Canada-U.S.-Mexico Agreement (CUSMA) plays a critical role in ensuring the continued growth of North America's med-tech and life science sectors by establishing key provisions that enhance regulatory compatibility. CUSMA's Chapter 12 includes sector-specific annexes covering areas like medical devices and pharmaceuticals.[9] These annexes aim to minimize duplicative regulatory procedures while encouraging the recognition of audits of medical device manufacturers across member countries. They also promote conformity with international best practices, including the adoption of a risk-based classification system for medical devices.

However, any new tariff threats could undermine the effectiveness of these provisions. Additionally, new tariffs will be inconsistent with the core obligations of the United States under the CUSMA. Undermining CUSMA in this way, in turn, may well have as a consequence a weakening of the regulatory cooperation provisions of the Agreement, giving rise to more complex and costly procedures and requirements.

Changing landscape and the tariff battle impact on med-tech and life sciences

The shifting tariff landscape presents several challenges for the med-tech and life sciences industries. A potential tariff on medical devices and pharmaceuticals could increase production and procurement costs, raising prices for both consumers and healthcare providers. Since Canada and the U.S. rely on each other for essential medical components, tariff-induced delays or blockages could result in shortages and treatment delays. Moreover, higher tariffs could undermine the competitiveness of North American med-tech companies in the global market.

Compliance with price regulation in Canada

In addition to the tariff concerns, med-tech and life sciences companies must consider compliance with price regulation standards in Canada, particularly those set by the Patented Medicine Prices Review Board (PMPRB).[10] The PMPRB sets price thresholds for patented medicines in Canada, ensuring that prices are consistent with those in comparable international markets. Companies selling medical devices or pharmaceuticals in Canada must ensure that their pricing complies with these thresholds to avoid penalties or restrictions. This regulation could add an additional layer of complexity to trade between the U.S. and Canada, particularly if tariffs result in increased prices for medical goods.

Key takeaways for stakeholders

The evolving tariff landscape represents a significant challenge for the med-tech and life sciences industries in North America. Key steps that stakeholders should consider include:

1. **Review supply chains**: Companies should assess their supply chains to identify vulnerabilities to tariff changes. Sourcing strategies may need to be adjusted to minimize cost increases and potential delays.
2. **Compliance with price regulation in Canada (PMPRB)**: Companies selling medical products in Canada must ensure they meet the PMPRB price thresholds to avoid penalties and maintain market access.
3. **Contingency planning**: Businesses should develop contingency plans to mitigate risks associated with supply chain disruptions. This may involve diversifying suppliers or finding alternative sourcing routes.
4. **Monitor provincial and federal responses**: Stakeholders should stay informed on provincial and federal government responses to the tariff threats and adjust their strategies accordingly.
5. **Seek exemptions from the tariffs for critical items:** Depending on how tariff developments unfold, stakeholders should consider applying for tariff exemptions through the U.S. *exclusion* process and the Canadian *remission* framework for critical items.[11]
6. **Existing contracts review**: Companies should consider existing contracts, including application of existing force majeure or price review clauses to mitigate risks associated with potential tariff changes. Businesses should also review any existing contracts or bids to determine whether the changing tariff landscape could impact costs, timelines, or product availability.

Footnotes

[1] See Trump imposes 25per cent tariffs on steel and aluminum | CNN Politics.

[2] See Fact Sheet: President Donald J. Trump Imposes Tariffs on Imports from Canada, Mexico and China – The White House; Trump agrees to pause tariffs on Canada and Mexico but not on China.

[3] See, *e.g.*, Only Doug Ford and the Ontario PCs Will Protect Ontario, Ontario PC website; Here are all the ways Canada is striking back against Trump's tariffs , ICI.Radio-Canada website.

[4] See Canada announces $155B tariff package in response to unjustified U.S. tariffs, Government of Canada website.

[5] See List of products from the United States subject to 25 per cent tariffs effective February 4, 2025 - Canada.ca.

[6] See Reciprocal Trade and Tariffs – The White House.

[7] The trade data is taken from the Government of Canada - Trade Data Online.

[8] See U.S.-Mexico-Canada Trade Agreement: Likely Impact on the U.S. Economy and on Specific Industry Sectors, p. 101.

[9] See Canada-United States-Mexico Agreement (CUSMA) – Chapter 12 – Sectoral annexes.

[10] See Patented Medicine Prices Review Board, Government of Canada website.

[11] See Preparing for Trump's tariffs | BLG.

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