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Mitigating Tariff Risks For Healthcare In US And Canada

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The U.S. and Canada have healthcare, life science and medical device industries that are complex and interconnected.

On March 6, President Donald Trump instituted a 25% ad valorem rate of duty on goods imported from Canada under the International Emergency Economic Powers Act.[1] The tariffs will not be implemented on goods that comply with the United States-Mexico-Canada Agreement until April 2.[2] In turn, Canada has announced a $155 billion tariff package on the U.S.[3]

These tariffs warrant an examination of the important relationship between the two countries' healthcare industries. The historically strong ties between Canada and the U.S. demonstrate the potential for real disruption and harm to the healthcare industry in both countries, which will affect not only the provision of healthcare, and the health and safety of healthcare workers, but also the lives of the patients themselves.

In the U.S., healthcare providers have been dealing with uncertainty regarding supply chains and increasing uncertainty since the outset of the COVID-19 pandemic.

The imposition of tariffs on imported goods arises during a period of significant scrutiny and rising costs to stakeholders throughout the U.S. healthcare system. In particular, across-the-board tariffs could lead to increased healthcare costs for providers that would exacerbate the already challenging margins and existing financial strain.

While the tariffs have been imposed, it is still an open question how long they will be in effect. In the meantime, there are steps that healthcare stakeholders can take and should continue taking to mitigate the effects of any tariffs, many of which stakeholders are actively engaged in. These include continuing to:[4]

- Review the healthcare supply chain for origin of goods and alternatives;
- Review the healthcare supply chain for vulnerabilities;
- Review agreements for risk and mechanisms to provide relief in the event of continued disruptions;

- Explore tariff-exempt options;
- Build mechanisms in contracts to ensure agility in the event of disruptions; and
- Collaborate with other stakeholders — on both sides of the border.

Healthcare Ties Between the U.S. and Canada

A recent publication from the Congressional Research Service states that Canada was the third-largest exporter of goods to the U.S. in 2024 and the top export destination, making Canada the top U.S. trade partner.[5]

The U.S. relies on a significant amount of imported goods for its healthcare system. In total, the U.S. imported close to $63 billion in medical equipment and $247 billion in pharmaceutical preparations in 2024.[6]

In 2023, the U.S. imported $5.91 billion in pharmaceutical products from Canada.[7] According to U.S. Census figures, in 2024 the U.S. imported $653 million in biotechnology products from Canada, including vaccines, blood products, therapies and laboratory reagents.[8]

In 2024, the U.S. imported $1.7 billion in life science products, including high-tech medical devices and equipment, surgical instruments and other hospital equipment.[9]

In turn, Canada is a significant purchaser of medical devices from American companies. In 2023, Canada imported $5.2 billion in pharmaceutical products from the U.S.[10]

In 2022, the U.S. was the largest exporter of medical devices to Canada, providing $3.2 billion of exported medical devices.[11] Canada and the U.S. have long sought to align their regulatory systems in order to facilitate the export and import of devices and pharmaceuticals.

Upward Pressure on Healthcare Costs

Since tariffs have been placed on healthcare goods, purchasers are engaging in cost-shifting to allay any increased costs.

Passing along these costs to downstream purchasers, whether hospitals, insurers or directly to consumers, would exacerbate the financial challenges of the fragmented health system in the U.S.

The U.S. already faces ongoing concerns about the unabated increase in healthcare costs. PricewaterhouseCoopers LLP predicts an 8% year-on-year medical cost trend in commercial healthcare spending growth, its highest level in 13 years.[12]

The U.S. spent $14,570 per capita on healthcare in 2023, continuing to grow at a faster pace than gross domestic product.[13] The Centers for Medicare and Medicaid Services' Office of the Actuary projects that over 2023-2032, national health expenditures will grow at 5.6% annually, continuing to outpace the GDP.[14]

Although not precise estimates, the decrease in the value of the Canadian dollar against the U.S. dollar may partially offset the increased cost of tariffs.[15]

A rise in healthcare input costs would ultimately result in increased premiums for health coverage in the individual and group health insurance markets, along with the Medicare and Medicaid programs.

According to JPMorgan Chase & Co., nonemployer health insurance premiums have increased by 19% over the past five years and employer health insurance premiums have risen by 33%.[16]

An increase in costs may also exacerbate strains on the finances of the Medicare and Medicaid programs. In particular, the Medicaid program that is jointly financed by states and the federal government is facing pressures from the changes being considered by the 119th Congress.[17]

The 2024 Medicare Trustees report found that the Hospital Insurance Trust Fund will no longer fully cover Medicare Part A benefits beginning in 2036.[18] Medicaid expenditures are often the largest line item in a state budget and accounted for 18% of state budgets in 2023.[19]

States looking to reduce Medicaid expenditures have limited policy choices, including the elimination or restricting of benefits, tightening eligibility for the program, or reducing reimbursements to healthcare providers.

Increased prices resulting from tariffs could also result in supply chain disruptions or product shortages. In an initial response to the proposed tariffs, American Hospital Association President and CEO Richard Pollack wrote that he is concerned the "tariffs, as well as any reactions of the countries on whom tariffs are imposed, could reduce the availability of these life-saving medications and supplies in the US."[20]

The Consumer Healthcare Products Association released a statement that tariffs on "health products will not only raise costs on American consumers, but limit access to affordable self-care, and disrupt global supply chains."[21] The Association for Accessible Medications predicts that tariffs on generic medications will increase the cost of drugs and raise the risk of drug shortages.[22]

Takeaways for Healthcare Stakeholders

Patient health and safety is key for all healthcare stakeholders, regardless of jurisdiction. Healthcare stakeholders should continue to evaluate how cross-border tariffs between the United States and Canada affect their supply chain vendors or otherwise increase their operational costs.

For example, hospitals are resource-dependent entities that must acquire the majority of items they use in providing care to patients and any increase in cost or tighter supply chains will have negative financial implications.

An examination and appreciation of an entity's supply chain can ensure there is appropriate diversification that can protect against any supply chain disruption that can arise from a natural disaster or other nontariff event.

Step 1 for any stakeholder is an examination of what items currently utilized may be subject to tariffs and whether there are domestic solutions that may be promptly interchanged.

There may be opportunities to promptly diversify supply chains. An assessment of current inventory and working with suppliers to determinate how long it would take to put in place alternative sources should be undertaken without further delay.

Providers that participate in group purchasing organizations with long-term agreements in place may be in a stronger position to avoid increased expenses in the near term.

Stakeholders should continue to work with legal counsel to review applicable contracts. In particular, an examination of applicable provisions to determine whether the application of tariffs would permit revisions to increase the cost of goods.

Provisions regarding changes in law, force majeure and termination should be closely examined to determine approaches to mitigation. There may also be opportunities to seek exemptions from the application of tariffs.

Conclusion

While the implementation of tariffs has occurred quickly and without much notice, it is critical for affected entities to remain nimble and have plans in place to reduce any negative ramifications resulting from increased costs or other jolts to supply chains.

It is likely that the impact of any tariffs on healthcare good or services will be felt equally by American and Canadian patients through the reduction in partnerships that have beneficially advanced innovation in the healthcare and life sciences industry.

Steps taken by stakeholders on both sides of the border can reduce financial and personal implications for affected entities and individuals.

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