Building Canada Strong

2025 Federal Budget Consultation:

Submission from the Canadian Pharmaceutical Manufacturers and Exporters Alliance - Alliance fabricants et exportateurs pharmaceutiques du Canada (CPMEA)

AUGUST 2025

Introduction

The Canadian Pharmaceutical Manufacturers and Exporters Alliance - Alliance fabricants et exportateurs pharmaceutiques du Canada (CPMEA) is encouraged by the Liberal platform commitment during the recent election, so aptly articulated, to "***secure the Canadian advantage in strategic industries like biomanufacturing… These industries protect our sovereignty and security - from being able to make our own vaccines and medicines, to protecting our security. These industries will keep us sovereign, set Canada up to lead in the economy of the future, and create high-paying jobs."*** [1]

We could not have said it better ourselves.

Canada's pharmaceutical producers support more than 33,000[2] highly skilled and technical jobs, making medicines for Canadians and for export. The largest volumes of pharmaceuticals manufactured in Canada are made by generic and contract manufacturers, without whom Canada's pharmaceutical supply would be extremely vulnerable.

Canadian pharmaceutical exports to the U.S. in 2024 exceeded $11B[3] in value; this is remarkable given the relative size of our economies and the vast U.S. pharmaceutical industry. It is estimated most of this production – between $6-7 Billion – are finished dose products manufactured in Canada by generic and contract manufacturers.

Like the steel, automotive and aluminum sectors, however, Canadian drug producers are facing the imminent threat of U.S. tariffs, possibly as high as 250%[4], due to the impending U.S. Department of Commerce 232 Investigation into trade in pharmaceuticals. Canadian generic and contract manufacturers are in a vulnerable position in an industry where margins are thin and globalization has benefited lower wage countries.

We are optimistic the federal government's strategy to build a self-sufficient Canadian economy aimed at industries like biomanufacturing will provide crucial policy support to retain and expand production in Canada and reduce our reliance on imported medicines.

To make this happen pharmaceutical production must be defined as a critical industry worthy of the same policy considerations as other strategic sectors such as advanced manufacturing, defense, agriculture, culture and telecommunications.

What could be more critical than access to Canadian-made medicines to restore health, cure disease and reduce suffering?

Canadians are very good at making medicines and we are ready to work with our government to upgrade and expand manufacturing plants, invest in new technologies to improve productivity, increase diversity of supply chains, and train and employ skilled workers.

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[1] https://liberal.ca/wp-content/uploads/sites/292/2025/04/Canada-Strong.pdf

[2] Stats Can Sources: Principal statistics for manufacturing industries, by NAICS Code 3254 Pharmaceutical Manufacturing.

[3] Statistics Canada. Canadian International Merchandise Trade Web Application

[4] https://www.cnbc.com/2025/08/05/trump-says-pharma-tariffs-could-eventually-reach-up-to-250percent.html

About the CPMEA

The Canadian Pharmaceutical Manufacturers and Exporters Alliance – Alliance fabricants et exportateurs pharmaceutiques du Canada (CPMEA) is a coalition representing pharmaceutical manufacturing companies operating production facilities in Canada. Our members are the largest producers of generic and contract manufactured medicines in Canada including Apotex Inc, Pharmascience, Laboratoire Riva, Teva Canada, and Delpharm. Together, we supply more than 33% of all prescriptions used by Canadians to treat illness and improve their lives.

The CPMEA unites the pharmaceutical manufacturing sector here at home, to ensure we retain what we have, and to strengthen our capacity to produce essential medicines, reduce dependence on imports and ensure long-term public health security.

Canadian National Security and Defense Depends on Domestic Pharmaceutical Manufacturing

In the past, Canada had a proud history of pharmaceutical manufacturing with a significant number of companies producing medicines in Canada for domestic use and for export. Sadly, domestic production has declined, and Canadians have become over-reliant on imports of medicines.

The reduction in local drug manufacturing is cause for concern, especially as Canada faces the U.S. tariff threat and during this time of increasing geopolitical tension. If Canadians cannot depend on domestic drug production to meet our needs, we are facing a looming national security and public health crisis. The loss of Canadian production has also taken with it reductions in capacity, investment, and expertise. The necessity to ensure our own pharmaceutical sovereignty has never been more serious.

Other countries, most notably the U.S. and the EU, have declared medicine production essential for national security and taken concrete steps to reshore production. In this climate of economic nationalism, it is even more imperative for Canada to support domestic medicine producers, so they are not lured away by attractive policy and tax regimes elsewhere.

As the Department of Finance prepares Budget 2025, CPMEA recommends four policy pillars to sustain and grow Canada's pharmaceutical security:

- **Pillar 1:** 'Canada-First' procurement of medicines to create sustainable demand for production in Canada.
- **Pillar 2:** Competitive tax policy to retain and attract pharmaceutical manufacturing.
- **Pillar 3:** Priority review for new generic drug applications submitted by Canadian pharmaceutical manufacturers.
- **Pillar 4:** Pharmaceutical production as part of Canada's national defense strategy.

Pillar 1: 'Canada First' Procurement

In their platform during the 2025 election, the Liberals committed to "***deploy a made-in-Canada procurement strategy that prioritizes Canadian suppliers and supply chains***." The best way to support production of pharmaceuticals in Canada is through market-based policies designed to establish sustainable and reliable demand giving Canadian manufacturers predictability and business confidence to justify investments in expanding production and improving productivity.

Canada's public drug plans spend over $18 Billion[5] annually to provide comprehensive drug coverage for eligible Canadians. As it stands today, there is no preference in public drug plan formularies for Canadian-made medicines. The absence of policy direction inadvertently favours imported products. Most of this spending is used to reimburse imported medicines produced by global pharmaceutical companies in the U.S., Europe, Japan, South Korea and India. Generic medicines imported from India dominate Canada's supply of essential medications. [6]

By directing procurement to domestic pharmaceuticals through formulary management, the provincial and federal drug budgets can ensure demand for Canadian-made medicines, particularly generic and biosimilar products. Harnessing their spending power, Canadian public payers can support local production and reduce dependency on imported medicines without incurring any additional cost.

Directing even a portion of public spending to Canadian-made medicines would give manufacturers the confidence to invest in expanding production and modernizing manufacturing plants – without adding new costs to government or taxpayers.

This is not a new idea; many nations use public procurement to support domestic industries and build resilience to lessen dependence on imports especially for critical products like pharmaceuticals. Under the *WTO Agreement on Government Procurement*, preference for domestic products is acceptable for reasons of national security.

Therefore, we recommend the federal government of Canada:

- Establish clear guidance to NIHB, Provinces and Territories that pharmaceutical procurement from Canadian producers is necessary for Canada's national security.
- Implement a "Buy-Canadian" procurement policy for federal drug programs, e.g. NIHB, federal Public Service Health Care Plan (PSHCP), military and veterans' programs.

[5] CIHI
[6] Canadian Generic Pharmaceutical Importing/Manufacturing Capacity Study, February 2022, E&Y; Generic finished goods are imported predominately from India, USA, and Austria. APIs are almost exclusively imported, with 62% coming from India and China alone.

- Under National Pharmacare and the Bulk Purchasing strategy, give preference for Canadian-made medicines in a National Formulary.

- Coordinate through the Canada Drug Agency with provinces 'Canada First' Formulary Exclusivity listings, so when a new drug off-patent medicine is launched, a six-month period of exclusivity on provincial formularies will be provided for Canadian producers.

- As member of the pCPA, work with other jurisdictions to eliminate or reduce rebates on pCPA-negotiated product listing agreements (PLA) for Canadian producers.

Pillar 2: Tax Policy and Drug Manufacturing

Canada must consider strategies to maintain our industrial competitiveness and retain production here at home. Economic development policies are needed to compete against benefits offered in other countries, and to recognize it costs more to manufacture medicines in Canada compared to countries where labour costs are much lower.

Both the U.S. and EU are advancing tax and economic development polices to drive investments in domestic pharmaceutical production. President Trump's 'One Big Beautiful Bill' will preserve low corporate tax levels and increase depreciation rates for producers. The Critical Medicines Act introduced by the EU Parliament will require Member States to support domestic pharmaceutical production, including with financial incentives.

With these factors in mind, CPMEA recommends:

Tax Credits to Support Domestic Pharmaceutical Production

- A refundable **manufacturing tax credit** for the production of medicines in Canada to recognize the additional costs of domestic manufacturing, and the critical nature of pharmaceutical production for public health and national security needs.
- Refundable tax credits for the **costs associated with technology transfer** of products currently produced outside of Canada.
- Raise or remove **limits on interest deductibility** if used in drug manufacturing or R&D.
    - Removing or raising the limits on interest deductibility (or linking to capital expenditure levels), would decrease the cost of borrowing to support expansions.
    - Immediate **accelerated/full depreciation** deductions for specific types of investments and different asset classes used in drug manufacturing and for onshoring API or dose form manufacturing assets. Additions such as buildings should be included.
    - Consideration should be given to including a retroactive adjustment to accelerate depreciation for capacity additions constructed since 2020, the start of the COVID-related public health emergency (given that the domestic industry invested millions in response).

Enhancements to SR&ED tax credits for generic and biosimilar development:

- Recognition of the distinctive nature of R&D activities deployed in generic drug development while considering specialized training for CRA assessors to understand the unique nature of generic R&D activities and the evolving regulatory environment in which they are brought to market.

- Expanded eligibility for the enhanced rate to Canadian companies with foreign ownership and Canadian public corporations. Additional tax credits will help attract funding from public markets and/or foreign direct investment that is often difficult to attract in Canada. Beneficial tax rates of this nature will encourage companies that undertake SR&ED activities to headquarter in Canada.

- Maintain the general non-refundable rate at the current level; and create an option for a lower refundable general rate.

- Broaden SR&ED-eligible activities to include expenses for quality control and testing of materials, devices, products or processes.

- Revert to pre-2014 SR&ED program changes.
    - Restore the 100% credit on amounts paid to Canadian subcontractors (instead of the current 80%).
    - Support recent reintroduction of eligibility for the purchase and rental of equipment.

Restoration of the preferential tax treatment for pharmaceutical donations for medicines manufactured in Canada:

- Until 2017, the Canadian government encouraged charitable giving by providing tax incentives to corporations on gifts of medicine donated to registered charities. The rationale for allowing an enhanced tax deduction is the same today; by incentivizing Canadian corporations to donate surplus or unused medications, the government can enhance access to essential drugs for vulnerable populations, leading to better health outcomes. It also reduces waste and environmental impact by motivating pharmaceutical companies to redirect surplus medications to those in need.

- Restoring the tax credit for medicine donations will signal Canada's commitment to addressing health disparities at home and worldwide.

Pillar 3: Health Canada Funding and Priority Review for Canadian-made Medicines

The Minister of Health[7] recently acknowledged delays in the approval of generic medicines and committed to reform the review process so that generic drug applications are approved within the 180-day target. She has recognized the need for greater efficiency; for example, by previewing files to identify errors or omissions earlier. We welcome this news and recommend that Budget 2025 include adequate funding for Health Canada to ensure resources are available to review new generic drug submissions in a timely manner.

CPMEA recommends the establishment of a priority review mechanism for new generic drug applications submitted by Canadian manufacturers. As it stands now, there is no distinction between applications submitted by a Canadian producer and those submitted by importers[8], despite the fact domestic producers invest significantly in local infrastructure, workforce development, and supply chain resilience. This undermines Canada's industrial policy goals and discourages local production.

CPMEA recommends Budget 2025 ensure adequate funding is allocated to Health Canada to:

- Support resources at Health Canada to speed up approval of new generic drug submissions.
- Provide priority approval for drug approval submissions from Canadian generic manufacturers.

Pillar 4: Inclusion of pharmaceutical production as part of Canada's national defense strategy

Many countries see over-reliance on foreign countries for essential medicines and their ingredients as a national security vulnerability in the event of geopolitical disruptions or embargoes, potentially affecting their ability to provide necessary healthcare for their citizens and military personnel.

The U.S. 232 Investigation trade in pharmaceuticals was instigated largely by concern over war with China and a Department of Defense directive to diversity away from non-allied nations for critical products. Recently the U.S. Administration announced the expansion of their Strategic

[7] Globe and Mail August 6, 2025; https://www.theglobeandmail.com/business/economy/article-speeding-up-generic-drug-approval-timelines-priority-health-minister/

[8] International generic companies have been known to seek an approval from Health Canada to sell their product in countries where a Health Canada registration is accepted for registration, but do not intend to sell their product in Canada. Resources at Health Canada are wasted if the drug product is not made available to Canadian patients.

Active Pharmaceutical Ingredient Stockpile (SAPIR)[9] to build up stocks to produce essential medicines as part of their national security program.

The EU's Critical Medicines Act was motivated by shortages experienced during Covid when borders were closed and supply chains were disrupted, and because of the war in Ukraine and the EU experience with dependency on imports of natural gas. Certain members of the European Parliament are advocating for allocating portions of its defense spending to support pharmaceutical and API production inside its borders.

Canada has the same national security vulnerabilities – we are equally dependent on imported medicines, especially from non-allied nations. Canada must consider its strategic autonomy and health system security in the event of troubles ahead. Pharmaceutical manufacturing must be recognized as a security asset, essential to national defense.

Canada can take a proactive leadership role in North America to invest in domestic pharmaceutical capacity, secure supply chains, and integrate medicine production into its broader national security and civil defense strategies. CPMEA recommends:

- The Government of Canada define medicine production as essential for our national security interests and allocate resources from its defence budget to ensure production within Canada's borders.

- During the 2025 election, Prime Minister Carney pledged to create a new defence procurement agency. This is an opportunity for the Canadian Department of Defense to contract with domestic drug producers to stockpile essential APIs and medicines, and guarantee production capacity is available in Canada.

[9] EO SAPIR

CPMEA
Canadian Pharmaceutical Manufacturers and Exporters Alliance

AFEPC
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