MOST FAVORED NATION (MFN)

POLICY IMPACT BRIEF

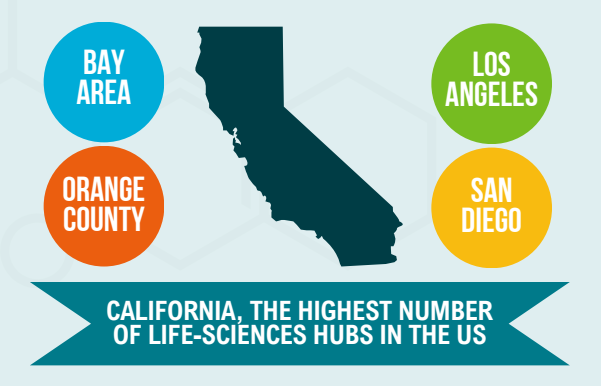
CALIFORNIA LIFE SCIENCES

OVERVIEW

On December 23, 2025, CMS's Center for Medicare and Medicaid Innovation (CMMI) proposed two new payment models, the Global Benchmark for Efficient Drug Pricing (GLOBE) model for Medicare Part B[1] and the Guarding U.S. Medicare Against Rising Drug Costs (GUARD) model for Medicare Part D.[2] These two mandatory CMMI models are intended to implement Most Favored Nation (MFN) pricing for Medicare drugs by replacing the existing method for calculating manufacturer rebate benchmarks under Parts B and D with a new international benchmark test. These models are still in the proposed rulemaking stage. President Trump has also called on Congress to codify MFN drug pricing policies, and several legislative proposals have recently emerged to advance that goal.

MFN POLICIES UNDERMINE AMERICA'S BIOPHARMACEUTICAL LEADERSHIP, WITH CALIFORNIA THE MOST SEVERELY IMPACTED

California Life Sciences (CLS) opposes these proposed rules and all other MFN policies in their entirety, as they pose an existential threat to life sciences sectors in California and the greater United States. Proposals that would require biopharmaceutical companies to pay the lowest global rate through foreign reference pricing, also referred to as "Most Favored Nation" (MFN) price setting, would ultimately erode America's standing as the global leader in biopharmaceutical innovation and severely harm patient access. As the life sciences capital of the United States, with a total of four major life sciences hubs (Bay Area, Los Angeles, Orange County, and San Diego), California would by far be hit the hardest of any state.



345K Life Sciences Jobs

1.04M Direct & Indirect Jobs

16K Life Sciences Businesses

$392B Total Annual Economic Impact

$18.8B Annual State & Local Tax Revenue

+31% Of Life Sciences Workforce in Manufacturing[4]

12 New FDA-Approved Therapies from California (2024)

Source: California Life Sciences Sector Report[3]

MAJOR LIFE SCIENCES DOWNTURN – DEVASTATING IMPACT ON NEW CURES, JOBS, AND PUBLIC REVENUES

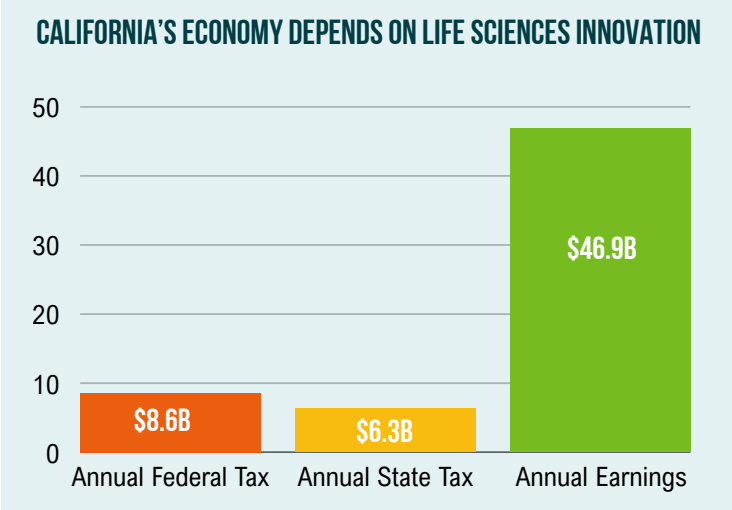
However, international reference pricing policies would dramatically undermine this innovation ecosystem by weakening incentives to develop new therapies, delaying patient access to the latest innovations, and injecting substantial uncertainty into an industry that depends on long-term, high-risk investment. Over a 10-year period:

Erosion of US Leadership and National Economic Contraction:

- Nationally, it is estimated that the implementation of MFN policies could lead to the loss of: over 2 million jobs (40% of current U.S. jobs in the biopharmaceutical industry); $600 billion in federal tax revenue; over $450 billion in state tax revenue; and $2.4 trillion in earnings.[5] It is also estimated that there would be 230 fewer new medicines,[6] and numerous other negative spillover effects, including a substantial reduction in venture capital funding.

MOST FAVORED NATION (MFN) – POLICY IMPACT BRIEF

California Forced to Forfeit Its Status as the Life Sciences Capitol of the World:



MFN policies will harm California more than any other state, with potential losses of: [7]

208,969 10 Year Job Loss

$8,618M Annual Federal Tax Loss

$6,387M Annual State Tax Loss

$46,944M Annual Earnings Loss

Collectively, in 2025, life sciences companies have announced that they will invest $370 – $480 billion in the US.[8] While at least $1.5 billion has already been invested in CA in 2025,[9] with many more billions already dedicated to other states, the vast majority of the $370 – $480 billion total has yet to be committed to any state.

California is uniquely positioned to capture these investments due to its **dominance in innovation**, **industry scale** and **capital investments**, **clustered talent**, **world-class research institutions**, and **manufacturing foothold.** However, these investments and onshoring expansions would be **directly threatened by MFN policies**, leading to **cuts in domestic investment** and a **massive redirection of investments towards other countries**.

Impact on Small Businesses

- California leads the nation in life sciences start-ups and small businesses. Almost 70% of life sciences companies in the state have fewer than 10 employees.[10]
- MFN would dramatically reduce small businesses' ability to attract private investments and continue researching cures, ultimately making it harder for these local companies to survive.
- This chilling effect would ripple across the industry, as reduced funding and weaker incentives also slow larger companies' willingness to invest in and advance early-stage research.
- In 2025, the number of venture capital (VC) backed funding rounds for U.S. biotech companies fell 25% year-over-year to 237, the lowest level since at least 2021, due to concerns about NIH and FDA restructuring, and the mere threat of MFN policies.[11]
- If MFN pricing were implemented, it is estimated that VC funding for domestic life sciences R&D would disappear,[12] as investors would shift towards other markets without price controls. While this would be devastating for small and large companies alike, the impact would be most pronounced for small companies.

7,672
Indirect CA Businesses Supported through Life Sciences Supply Chains

+$7.2B
In Economic Investment for Indirect CA Businesses

6,494
CA Clinical Trials

2,774,886
CA Clinical Trial Participants

Source: We Work for Health – In the States Data 2022

NET NEGATIVE FOR CALIFORNIANS AND AMERICANS NATIONWIDE

The economic devastation created by such policies would greatly undercut any estimated savings that CMS expects to achieve from these proposed rules. Across losses in jobs, federal and state tax revenue, and earnings, the states that stand to lose the most are California and other states that contribute far more in federal taxes than they receive in federal funding, such as Texas and New York.

- In terms of net contributions, of those 19 states that contributed more in federal taxes than they received in federal spending in 2024, the largest gaps were in California ($275.6 billion), New York ($76.5 billion), and Texas ($68.1 billion).[13]
- The estimated losses[14] in federal tax revenue from these "donor states" greatly reduce the ability of these proposed rules to achieve any meaningful and beneficial change for Americans. Instead, these proposed rules would likely result in a net negative for state and federal governments and the patients they represent.

Critically, these models would disproportionately penalize the innovators operating at the frontiers of science – those assuming the greatest financial and scientific risks to deliver next-generation therapies that are more effective, more durable, and ultimately cost-saving for patients and health care systems. The proposed rules would:

- Create substantial challenges for innovators at all levels. Particularly for those involved in cutting-edge and high-risk R&D, including for rare and ultra-rare disease therapies, next-generation treatment modalities, precision and personalized medicines, and more.
- Disincentivize R&D investments. Although the quantitative effects of MFN policies may be the most immediately tangible, there would also be an as-of-yet unquantifiable impact on the future direction of medicine development, not just the total number of new medicines. Free market principles have made the US the hub of innovation, and a wholesale reversal of those market dynamics might incentivize the development of lower-risk but lower-reward therapies.
- Compound risks for drug development in the United States. Our nation is in an especially fragile moment for biomedical innovation in the US. Regulatory uncertainty and delays at the FDA, reductions and disruptions in NIH research funding, etc., have already increased the risk profile of drug development. Layering abrupt and sweeping MFN-style pricing measures on top of this environment risks compounding instability across the innovation ecosystem, forcing many innovators to shift into less ambitious R&D plans or simply leave the market.

MFN POLICIES PUT CALIFORNIA'S FUTURE AT RISK

2025 marked the year that California officially became the 4th largest economy in the world,[15] with its rapidly growing life sciences sector as a primary driver underpinning this growth and accounting for 10% of the state's $4.1 trillion GDP (narrowly edging out Japan's $4.02 trillion GDP).

MFN policies, including GLOBE and GUARD, put California's position on the world stage at risk. Once that ground is lost, foreign adversaries like China are well-positioned to absorb these domestic markets, creating significant national security risks for the U.S. *As a result, retroactively restoring California's innovation economy and U.S. global leadership in biomedical research would be extraordinarily difficult.*

Congress must proactively protect America from these risks by opposing MFN policies.

[1] Global Benchmark for Efficient Drug Pricing (GLOBE) Model (Part B)
[2] Guarding U.S. Medicare Against Rising Drug Costs (GUARD) Model (Part D)
[3] California Life Sciences – 2025 Sector Report
[4] Business Wire– Biocom California's 2025 Economic Impact Report Highlights Importance of the State's Life Science Industry -- One of the Top Industries in the Fourth Largest Economy in the World
[5] Vital Transformations – Most Favored Nation (MFN) Reference Pricing in Medicare Impacts on jobs, innovation, and state budgets: The Executive Summary
[6] We Work for Health – Major Milestone: U.S. Life Sciences Investments Top $500B+
[7] Vital Transformations – Most Favored Nation (MFN) Reference Pricing in Medicare Impacts on jobs, innovation, and state budgets
[8] Think Global Health – Tracking Pharma's Progress on U.S. Onshoring Efforts to Avoid Tariffs
[9] Office of Governor Gavin Newsom – Global biotech leaders Amgen and Gilead announcing expansions in California, the #1 state for life sciences
[10] California Life Sciences – 2025 Sector Report
[11] S&P Global – US biotech rounds of funding drop to lowest in 5 years
[12] Vital Transformations – Most Favored Nation (MFN) Reference Pricing in Medicare Impacts on jobs, innovation, and state budgets: The Executive Summary
[13] USA Facts – Which states contribute the most and least to federal revenue?
[14] Vital Transformations – Most Favored Nation (MFN) Reference Pricing in Medicare Impacts on jobs, innovation, and state budgets
[15] Office of Governor Gavin Newsom – California is now the 4th largest economy in the world