

## Continuous Cost Pressures Affecting Medical Technology Manufacturing

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More than two years of managing the global COVID-19 pandemic, and now the terrible war in Ukraine, have taken a significant toll on global market dynamics and the costs of manufacturing. The medical technology industry currently faces significant cost pressures.

This situation is particularly concerning, as medical technology manufacturers operate within complex and rigid systems of pricing, reimbursement, and procurement with national health authorities, hospitals, clinics, and laboratories. Payment systems vary from country to country, yet they pose a common challenge of providing little to no room for inflation adjustments.

While cost mitigation measures are being deployed by the medical technology industry, the situation is reaching a critical stage where, if left unchecked, it could inevitably have consequences on the manufacturing, and thus on the supply of medical technology products and services to healthcare systems and patients.

The following factors put increasing pressure on the manufacturing of medical technologies:

### **Rising in energy and raw material prices:**

The steep rise in international oil and gas prices has resulted in higher energy costs that seriously impact manufacturing costs. Furthermore, global raw material prices are skyrocketing, resulting in all products and commodities reliant on these materials becoming more costly. In addition, global shortages of key supplies such as semiconductors, packaging materials, resins, plastics, and surgical grade alloys – all of which are key to medical technology manufacturing – have also contributed to significant price increases.

### **Rising in logistic costs:**

The dynamics of global logistics were significantly impacted by the COVID-19, which has caused supply chain disruptions and an instability of global production. Logistic costs, such as sea and air fares and container cargo costs, have risen steeply. This impacts the medical technology sector not only because of the sector's globally organised production and supply chain networks. Many medical technology products and components also need very specific transport conditions to ensure their safety and performance, such as guaranteeing the appropriate temperature (for diagnostic tests), sterilization conditions (for medical PPE, surgical material, implants) or guaranteed valid use by date. With operating routes and cargo volume reduced globally, the availability and reliability of freight and thus the related freight costs have become a growing cost factor for medical technology manufacturers.

**Rising in regulatory costs:**

Supply chain or systemic logistical challenges force manufacturers to re-develop and re-design products and/or components. For medical technologies, this often requires a re-certification process to prove the same level of safety and performance of the product, particularly since the new Medical Devices Regulations in Europe have strengthened and extended regulatory requirements.

**Rising in labour costs:**

The medical technology industry faces strong competition among other industries for high-skilled labour in areas such as engineering, IT, and regulatory specialists. Furthermore, wage inflation has affected areas such as warehousing, logistics, and distribution. Thus, labour costs have seen a significant rise over the past years.

**In light of these inflationary costs and systemic cost pressures on medical technology manufacturing, we strongly encourage governments to reflect on temporary and long-term measures and mechanisms to address these challenges. Doing so will support a vibrant medical technology industry that can continue to deliver necessary established and innovative medical technology products and solutions to patients and healthcare systems in Europe and beyond.**

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