Position Statement – U.S. Supply Chain Resilience

Executive Summary

The COVID-19 pandemic, Russia's invasion of Ukraine, and other geopolitical crises have prompted increased attention to supply shortages across several products and industries, including consumer goods, life sciences, industrial products, automotive, and high-tech electronics such as semiconductors. These shortages have contributed to increased inflation and have led to debates over the nature of global supply chains, with the U.S. government raising concern about its ability to manage another pandemic or global crisis. Some policymakers have argued for the need to "reshore" manufacturing and increase domestic production capacity for critical products.

Our company supports initiatives to increase funding for and incentivize domestic manufacturing in the United States. We also urge policymakers to keep in mind the complexity of global supply chains and their importance to international trade. While supply chain rebalancing may be needed, particularly in the aftermath of COVID-19, it should be done in a careful way that does not compromise companies' ability to improve supply chain resilience around the world.

Why It Matters

The pharmaceutical, life science, and electronics industries are global by the very nature of their operations. Research and development (R&D) into new treatments, products, and technologies typically involve global efforts across a company's network of researchers and scientists, with both public and private partners contributing. The chemicals, materials, and other inputs used in R&D and production are manufactured through a global network of raw material suppliers and manufacturers. Our company relies on robust global supply chains to ensure patients have ongoing access to medicines, researchers have access to chemicals and other inputs used to develop therapeutics, and innovators have access to the tools and materials they need to produce the world's most advanced technologies.

Given that different components require specialized raw materials, expertise, and production capabilities, even small supply disruptions or constraints can have broad and cascading effects on a variety of downstream industries and impact the global economy. As a result, geographically diverse supply chains enable companies like ours to adjust to avoid potential shortages and disruptions. Our company was able to overcome the challenges posed by COVID-19 because of, not in spite of, our global network of manufacturing sites, including 40 manufacturing sites in the United States. While some of our production sites manufacture products for their regions, they all meet the same strict international Good Manufacturing Practice (GMP) standards of quality, enabling products produced in one location to be sold anywhere, subject to regulatory approval.

As a company that has invested more than $46 billion in the U.S. in the last 20 years and currently employs more than 15,000 people at 74 facilities in 22 states, we recognize the vital role the United States plays in the global supply chain and in fueling innovation.

Our Position

The U.S. businesses of Merck KGaA, Darmstadt, Germany agree that there is a need for a closer examination of potential supply chain vulnerabilities due to limited sourcing options for specific products and inputs.

- COVID-19, other recent geopolitical challenges, and related inflationary pressures have provided an opportunity for a broader discussion around identifying and addressing cases where supply chain diversification may be needed.
- Because securing and certifying additional suppliers can represent a significant time and financial commitment, especially for a highly regulated sector like pharmaceuticals, we believe that such efforts are best undertaken in partnership between governments and supply chain stakeholders.
- For our company's products, we are committed to providing regulatory authorities with regular, up-to-date information on product status, while also working with relevant stakeholders to share information as appropriate and find solutions in the event of product shortages.

We strongly support legislation and government programs that boost U.S. competitiveness by providing funding for supply chain resilience, innovation, and domestic manufacturing.

- Industry's ability to respond to another pandemic or global crisis and to mitigate supply shortages will require greater availability and geographic variety of production capacity, including in the United States, as demonstrated by our company's ongoing investments in several of our U.S. Life Science and Electronics manufacturing sites.

- This response also requires a focus on policies that facilitate the transportation of products within the U.S. and through existing export channels, such as ocean shipping. For example, we support policies that improve shipment tracking by requiring ports and ocean carriers to provide real-time status updates to shippers to alleviate supply shortages and improve reliability.

- Our company supported passage of the CHIPS and Science Act, which provides grant funding and tax credits to incentivize semiconductor manufacturing and R&D in the United States. These types of incentive programs fuel job growth, increase GDP, bolster national security, and make the U.S. a more attractive destination for manufacturing investment.[1]

- We also support funding for programs like the Administration for Strategic Preparedness & Response (ASPR) Office for Innovation and Industrial Base Expansion, which focuses on expanding, securing, and building resilience across the public health and medical industrial base.

- It is imperative that any government policies or funding programs promoting domestic manufacturing do so through incentives and industry partnerships and not through measures intended to punish or coerce companies into relocating manufacturing to a specific location.

We believe that pandemic preparedness must also be prioritized, as some supplies may not be able to be sourced at the speed and in the quantities needed to respond to a global crisis.

- Our company stands ready to work with government and other public and private stakeholders to support pandemic-related R&D, strengthen the United States' ability to manage a pandemic, and secure the resources needed in the most efficient manner possible. It is especially critical for governments to collaborate with the private sector in the event that government intervention in the marketplace affects what businesses produce or how supply chains are allocated.

- Government stockpiling efforts that identify core raw materials for pharmaceuticals and diagnostics would greatly enhance healthcare systems' ability to respond quickly to a health crisis. Raw materials provide flexibility and can be used to adapt to any pandemic that arises.

COVID-19 and other crises have also shown that efforts to mitigate supply shortages can be stymied by regulations and processes that are ill-equipped to deal with outside shocks.

- We urge U.S. policymakers and government officials to prioritize policies and create contingency plans to maintain supply routes, guarantee the free flow of commerce in the event of border closings, and ensure that restrictions at the state or local level do not hinder the ability to deliver medicines and other critical goods to those who need them.

The unprecedented collaboration between public, private, and other key stakeholders during the COVID-19 pandemic underlined that crisis management and supply chain resilience are best guaranteed by openness and partnership. We are committed to doing our part to ensure that the U.S. and the world will be able to overcome any future supply challenges.

About Merck KGaA, Darmstadt, Germany

Merck KGaA, Darmstadt, Germany, a leading science and technology company, operates across life science, healthcare and electronics. More than 64,000 employees work to make a positive difference to millions of people's lives every day by creating more joyful and sustainable ways to live. From providing products and services that accelerate drug development and manufacturing as well as discovering unique ways to treat the most challenging diseases to enabling the intelligence of devices – the company is everywhere. In 2022, Merck KGaA, Darmstadt, Germany, generated sales of € 22.2 billion in 66 countries.

The company holds the global rights to the name and trademark "Merck" internationally. The only exceptions are the United States and Canada, where the business sectors of Merck KGaA, Darmstadt, Germany, operate as MilliporeSigma in life science, EMD Serono in healthcare and EMD Electronics in electronics. Since its founding in 1668, scientific exploration and responsible entrepreneurship have been key to the company's technological and scientific advances. To this day, the founding family remains the majority owner of the publicly listed company. For more information about Merck, KGaA, Darmstadt, Germany, visit www.emdgroup.com.

[1] Strengthening the Manufacturing Supply Chain. (18 May 2020). National Association of Manufacturers. Retrieved from https://documents.nam.org/COVID/NAM%20-%20Strengthening%20the%20Manufacturing%20Supply%20Chain.pdf