# UK life sciences sector faces decline as Merck withdraws and investment slows



The UK government’s recent proclamation that the country has become “the most attractive place to invest in the world” stands in stark contrast to the grim reality facing its life sciences sector, underscored by the withdrawal of US pharmaceutical giant Merck from plans to establish a £1 billion research centre in London’s King’s Cross. Merck’s decision to scrap the project, citing the UK’s lack of international competitiveness, highlights deep-seated issues that have left many industry leaders and experts forecasting a bleak future for pharmaceutical investment in the UK.

Sir John Bell, the former regius professor of medicine at Oxford and a revered figure in UK life sciences, bluntly stated on Radio 4 that chief executives of major pharmaceutical companies have uniformly expressed reluctance to invest further in the UK. This sentiment echoes across the sector. Key factors driving this chill include the UK’s comparatively low spending on medicines—9% of its healthcare budget versus much higher percentages in Germany, Italy, and France—and a punitive “clawback” mechanism that last year required pharmaceutical firms to return 23% of NHS prescription medicine revenues. Such aggressive cost recouping is widely viewed as discouraging investment, especially when European counterparts operate with far less onerous clawback rates.

The government justifies its tough stance as protecting NHS budgets and demanding value for money, while pharmaceutical firms argue that the UK’s approach threatens innovation and long-term industry growth. Compounding the issue is the Treasury’s tight budget constraints and an official “value for money” framework for new drugs that has not been updated since 2001. Additionally, a new dynamic introduced by US pharmaceutical policies complicates matters: US manufacturers, under pressure from the Biden administration to lower drug prices to European levels, are wary of the UK’s traditionally low pricing being used as a benchmark for US markets. Merck’s move is indicative of a broader trend where multinational companies reassess their global investment strategies in light of these cross-jurisdictional pricing pressures.

Merck’s abandonment of a half-built research facility is not an isolated incident. Earlier, AstraZeneca shelved plans for a £450 million vaccine plant, citing diminished government support. These setbacks are significant blows to the UK government’s ambition to position the country as a “life sciences superpower.” Although Merck will retain 1,600 jobs and continue clinical trials in the UK, the withdrawal of fresh investment and infrastructure development is a serious concern. The loss of potential new jobs and research capacity risks a slow erosion of the UK’s competitive edge in pharmaceutical innovation.

The government’s response has been mixed. While the Department for Science, Technology and Innovation maintained a cheerful stance on the attractiveness of the UK investment environment, health officials are now urging renewed talks with pharmaceutical companies to address concerns. Internal blame games have emerged, with the Department of Health attributing the problem to Treasury short-termism, while others accuse pharmaceutical firms of using investment decisions strategically to pressure for more favourable drug pricing.

The pharmaceutical industry, represented by the Association of the British Pharmaceutical Industry (ABPI), has been vocal about the damage caused by Britain’s drug pricing policies. ABPI data reveals that the UK’s ranking for foreign direct investment in pharmaceuticals has fallen from second place in 2017 to seventh in 2023. The voluntary branded medicines pricing, access and growth (VPAG) scheme, which imposes an effective sales tax through high clawback rates, has led companies to delay launching new medicines and reconsider their involvement with the NHS. The increasing financial burden from these policies contributes to concerns that the UK is becoming “uninvestable,” prompting companies to reduce headcount and withdraw partnerships.

All told, the situation epitomises a challenging balancing act for the UK government. On one hand, it must ensure affordable access to medicines for the NHS amidst financial constraints. On the other, it risks alienating the very companies that drive pharmaceutical innovation and economic growth. As Sir John Bell notes, the UK’s ambition to become a global life sciences hub cannot succeed without sustained and significant investment from large pharmaceutical companies. At present, pervasive doubts within industry circles suggest the UK's life sciences sector is at a crossroads, and without strategic adjustments, the current trends may impair its future competitiveness and capacity for innovation.

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* Paragraph 1 – [[1]](https://www.theguardian.com/business/nils-pratley-on-finance/2025/sep/11/uk-government-must-heed-warns-over-big-pharma-investment), [[4]](https://www.ft.com/content/5ace49a8-47ab-409d-8909-6edb107ce71a)
* Paragraph 2 – [[1]](https://www.theguardian.com/business/nils-pratley-on-finance/2025/sep/11/uk-government-must-heed-warns-over-big-pharma-investment), [[2]](https://www.reuters.com/business/healthcare-pharmaceuticals/britain-defends-investment-record-as-merck-scraps-labs-over-pharma-environment-2025-09-11/), [[5]](https://www.reuters.com/business/healthcare-pharmaceuticals/british-pharma-industry-says-drug-pricing-stance-hurts-foreign-investment-2025-09-10/)
* Paragraph 3 – [[1]](https://www.theguardian.com/business/nils-pratley-on-finance/2025/sep/11/uk-government-must-heed-warns-over-big-pharma-investment), [[3]](https://www.ft.com/content/53543a40-a2ee-49a5-b395-9572a02120a8)
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* Paragraph 6 – [[5]](https://www.reuters.com/business/healthcare-pharmaceuticals/british-pharma-industry-says-drug-pricing-stance-hurts-foreign-investment-2025-09-10/), [[6]](https://www.ft.com/content/9e6a19c6-074a-4386-8050-3a9517f0c524)
* Paragraph 7 – [[1]](https://www.theguardian.com/business/nils-pratley-on-finance/2025/sep/11/uk-government-must-heed-warns-over-big-pharma-investment), [[5]](https://www.reuters.com/business/healthcare-pharmaceuticals/british-pharma-industry-says-drug-pricing-stance-hurts-foreign-investment-2025-09-10/), [[6]](https://www.ft.com/content/9e6a19c6-074a-4386-8050-3a9517f0c524)

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## Bibliography

1. <https://www.theguardian.com/business/nils-pratley-on-finance/2025/sep/11/uk-government-must-heed-warns-over-big-pharma-investment> - Please view link - unable to able to access data
2. <https://www.reuters.com/business/healthcare-pharmaceuticals/britain-defends-investment-record-as-merck-scraps-labs-over-pharma-environment-2025-09-11/> - Britain has come under scrutiny for its investment environment in the life sciences sector after U.S. pharmaceutical giant Merck announced it is abandoning plans to open a new research center in London. The company cited ongoing challenges, including insufficient government support and the undervaluation of innovative medicines, as reasons for pulling out. This follows a similar move by AstraZeneca, which shelved plans for a £450 million vaccine plant due to reduced government backing. ([reuters.com](https://www.reuters.com/business/healthcare-pharmaceuticals/britain-defends-investment-record-merck-scraps-labs-over-pharma-environment-2025-09-11/?utm_source=openai))
3. <https://www.ft.com/content/53543a40-a2ee-49a5-b395-9572a02120a8> - UK health officials are seeking to reopen negotiations with pharmaceutical companies after Merck scrapped its planned £1bn research centre in London, citing the UK's uncompetitive environment and low drug pricing. Merck will relocate research efforts primarily to the US, and the decision has triggered internal government disputes. The Department of Health blames Treasury short-termism, while others argue pharmaceutical firms are using investment decisions to push for better drug pricing. ([ft.com](https://www.ft.com/content/53543a40-a2ee-49a5-b395-9572a02120a8?utm_source=openai))
4. <https://www.ft.com/content/5ace49a8-47ab-409d-8909-6edb107ce71a> - U.S. pharmaceutical giant Merck has canceled plans for a £1 billion research center in London’s King’s Cross, resulting in the layoff of 125 scientific and support staff. The decision is a significant setback for the UK government, which has prioritized life sciences as a key sector for economic growth. Merck cited the UK’s lack of international competitiveness as a major factor and stated its decision was unrelated to recent failed drug-pricing negotiations with the National Health Service (NHS). ([ft.com](https://www.ft.com/content/5ace49a8-47ab-409d-8909-6edb107ce71a?utm_source=openai))
5. <https://www.reuters.com/business/healthcare-pharmaceuticals/british-pharma-industry-says-drug-pricing-stance-hurts-foreign-investment-2025-09-10/> - The Association of the British Pharmaceutical Industry (ABPI) has voiced concerns about declining foreign investment in the UK's pharmaceutical sector due to the government's drug pricing policies. Ongoing disputes between drug manufacturers and the UK government over how much revenue must be returned to the National Health Service (NHS) remain unresolved, with negotiations breaking down the previous month. The ABPI warned that these high 'clawback rates' are deterring investment and threatening innovation, noting that the UK’s foreign direct investment ranking in the sector fell from second place in 2017 to seventh in 2023. ([reuters.com](https://www.reuters.com/business/healthcare-pharmaceuticals/british-pharma-industry-says-drug-pricing-stance-hurts-foreign-investment-2025-09-10/?utm_source=openai))
6. <https://www.ft.com/content/9e6a19c6-074a-4386-8050-3a9517f0c524> - Drugmakers have expressed concerns that the recent rise in the UK's medicine sales tax has made the country 'uninvestable,' leading to a reduction in headcount and abandonment of NHS partnerships. The Association of the British Pharmaceutical Industry (ABPI) highlighted that the voluntary scheme for branded medicines pricing, access and growth (Vpag) has caused companies to delay launching new medicines due to the high clawback tax, making the UK less attractive for investment compared to other countries. The Vpag tax aims to limit NHS drug expenditure based on a formula, but companies may face higher statutory taxes if they leave the agreement. ([ft.com](https://www.ft.com/content/9e6a19c6-074a-4386-8050-3a9517f0c524?utm_source=openai))