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How One Small Manufacturer Would Be Hurt by a Trade War

Air Tractor is a small business with 265 employees in Olney, Texas, that — like many other U.S. companies — uses imported goods in its products. The company makes aircraft primarily for agricultural purposes, including fertilization, pest control and seeding. Its planes are used across the U.S. and around the world. David Ickert, Air Tractor’s vice president of finance, explained how a trade war could hurt its business.



1. Steel and Aluminum Tariffs

While President Donald Trump claims that trade wars are “good” and “easy to win,” most experts agree that trade wars can have potential devastating effects on domestic industries. The “major point of the trade war is, nobody wins,” said Sherman Robinson, nonresident senior fellow at the Peterson Institute for International Economics.

A trade war “damages all players. ... Even if it’s a short-lived trade war” because of perceived instability of supply and demand. “These tariffs avoid

industries, such as textiles and clothing, that would directly affect consumers,” Robinson said. However, they will more than likely have secondary effects on other industries.

In March, Trump instated a 25 percent tariff on steel and a 10 percent tariff on aluminum imports. A significant portion of aluminum and steel imports have already been exempted until May 1, though it’s unclear whether the imports will remain exempt from the tariffs beyond that date.

“It’s still an uncertain environment.”
— David Ickert, Air Tractor’s vice president

Supply: Higher input costs

Air Tractor uses steel tubing and aluminum skin as major components in its aircraft. The steel and aluminum tariffs could drive up the cost of building aircraft at Air Tractor.

“Any tariff that negatively impacts the price of steel and aluminum ... has an impact on our bottom line.”
— David Ickert



Effect: Lower margins

Air Tractor would be forced to cover the increased input cost without passing it along to its customers, reducing its profits on sales. “You’re going to have a margin impact that you can’t pass along” to customers, Ickert said.

	WITH TARIFFS	NO TARIFFS
PRICE	\$25,000*	\$25,000*
COST OF STEEL	(\$12,500)	(\$10,000)
PROFIT	+\$12,500	+\$15,000

*Price is not reflective of actual Air Tractor prices; used solely for illustrative purposes.

2. Tariffs on Agricultural Commodities

In retaliation for the United States’ proposed section 301 tariffs against Chinese imports, China is threatening tariffs on a number of U.S. goods, including agricultural products.

“Our [U.S.] exports depend on imports,” Robinson said. “We have very

complicated supply chains ... you will damage U.S. exports that rely on those imports.” The automobile industry is one example. Other industries, such as the agricultural aircraft industry, are not directly targeted by the tariffs, either — but stand to be hurt by several of the proposed and enacted tariffs.

“If our farmers don’t have as robust a market worldwide,” that would affect their demand for Air Tractor planes, Ickert said.



Farmers face lower demand

China is a major importer of U.S. agricultural products, including soybeans, wheat and cotton. If China levies retaliatory tariffs on these products, U.S. farmers may face weaker demand and be unable to sell their products at market value.

Effect: Less demand for farm equipment

Facing lower revenue, farmers could be forced to cut costs to remain solvent. That could include buying fewer agricultural-use planes.

Sources: U.S. Trade Representative; USA Trade database; Air Tractor, images by Air Tractor
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