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# Aviation tariffs

Navigating an uncertain landscape

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# EXECUTIVE SUMMARY

## Tariff volatility is likely over

- Following retaliatory surges that raised tariff rates to 145%, **bilateral deals with China and the UK initiated a de-escalation cycle**, reflecting the administration's willingness to provide relief
- Recent **pauses and rollbacks indicate the administration's responsiveness to sectoral pressures** and market volatility, especially in retail, electronics, and transportation industries
- Ongoing **court challenges and legislative opposition have created significant friction**; a legal review by the Supreme Court is anticipated in July

## Tariff pause

- The **90-day pause** on the highest tariff rates and the reversion to a 10% baseline rate **have reduced volatility, maintained negotiating momentum**, and allowed businesses time to adjust
- The **July 8 expiration of the 90-day pause is unlikely to lead to another major escalation**, as over 70 countries are currently engaged in active talks with the US
- Future decision timing may align with key diplomatic events, court rulings, and internal metrics such as inflation and job growth

## Macroeconomic environment

- The **macroeconomic environment shows signs of stabilization**, but **pressure is building beneath** the surface as recession risks persist
- Headline indicators such as unemployment and inflation have remained stable, but **some underlying signals are fragile**
- Import volumes fell by 16% from March to April as companies made front-loaded purchases before tariffs were implemented, and US GDP contracted by 0.3% in Q1

## Business responses

- Most companies are responding through a mix of:
  - **Resilience**: Diversifying suppliers and increasing U.S. and nearshore production
  - **Agility**: Repricing SKUs, adjusting inventories, and delaying capital expenditures in uncertain categories
  - **Insight**: Utilizing tools to simulate tariff impacts across supply chains and geographies
- Ongoing monitoring of negotiations, exemptions, and sector-specific policy changes will be crucial for protecting margins and maintaining flexibility in the coming months

# WHAT HAPPENED? THE TRUMP ADMINISTRATION HAS INTRODUCED A WHIRLWIND OF NEW TARIFFS ON DIVERSE SETS OF GOODS INCLUDING AVIATION INPUTS

## Aviation Position

### Aircraft Imports

10-30% tariff on aircraft imports

- **China**: **30%** (Lowered from peak 125% to 30% for 90 days as of May 12 deal announcement)
- **EU, Canada, Mexico**: **25%** (USMCA exemptions removed)
- **Other countries: 10%** (baseline for all other countries)
- Some exemptions for narrowbody

### Aftermarket / MRO Parts

**10-30% tariff** on parts imported

- **China: China**: **30%** (Lowered from peak 125% to 30% for 90 days as of May 12 deal announcement)
- **EU, Canada, Mexico: 25%** (overrides USMCA protections; parts may qualify for exemption if rules-of-origin thresholds met)
- **Other countries: 10%** (baseline tariff for non-preferred trading partners; additional duties possible in special cases)

### Inputs to Production

**50% tariff** on steel and aluminium

- Steel & Aluminium rate increased from 25% to 50%
- Other product-specific tariffs remain an area of uncertainty

## Overview of Global Tariffs

*Ongoing court challenges by July 31*

| | U.S. Tariff Actions | | Status |
|---|---|---|---|
| Broad | **Reciprocal tariffs** | 10% universal rate | **Active** |
| Country-specific | **China** | 30%[1] tariff | |
| | **Canada** | 25% tariff | |
| | **Mexico** | 25% tariff | |
| Product-specific[2] | **Steel and Aluminum** | 50% tariffs | **Active** |
| Other | **Secondary tariffs (Copper, Lumber, minerals, etc.)** | TBD | *Investigation due[2] late 2025 / early 2026* |

Source: Avionics International, Oliver Wyman analysis; 1. Excludes Section 301 tariffs in place prior to 2025 affecting ~75% of Chinese imports, resulting in an effective additional tariff of about 8.5%. 2. Based on 270-day limit from Section 232 investigation; Source: Oliver Wyman analysis of public sources

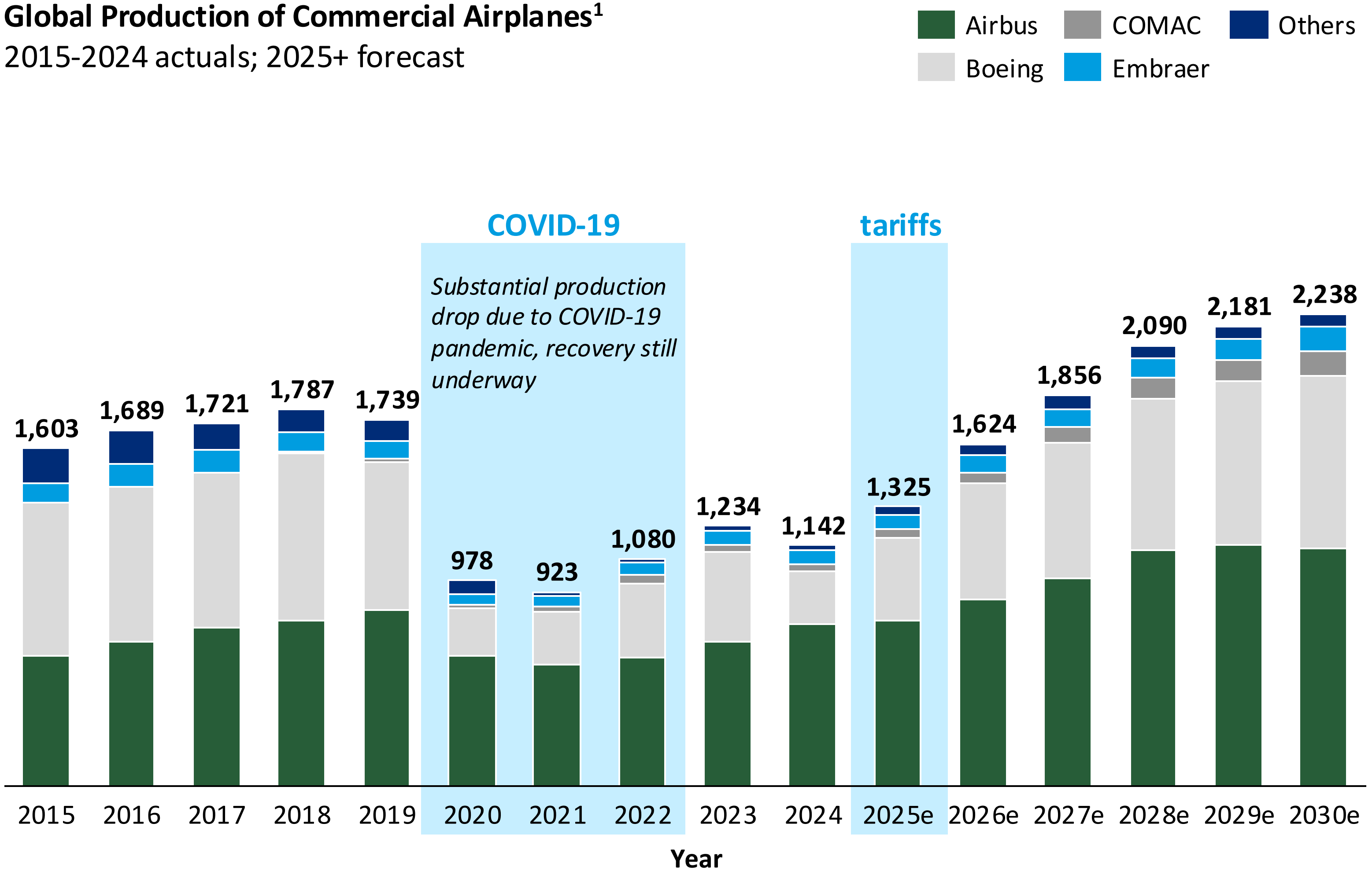
# TARIFFS ARE SIGNIFICANTLY DISRUPTING COSTS, TIMELINES, AND GLOBAL SUPPLY CHAINS / SOURCING ACROSS THE AVIATION INDUSTRY

| *Segment* | Cost Impact | Timing / Delays | Supply Chain Risk |
|---|---|---|---|
| **Aircraft Production** | **Materials + components face tariffs**<br>• Tariffs on **aluminum and steel inflate base material costs** for airframes / structures<br>• Tariff exposure on subassemblies and systems (many of which are sourced from China)<br>• Potential for **multi-layer cost passthroughs from Tier 2/Tier 3 suppliers**<br>• Airbus and Boeing may **hedge costs through long-term contracts**, but exposure remains | **Supplier delays and sourcing shifts**<br>• **Disruptions** in component supply chains **or re-routing through tariff-favorable countries**<br>• **Long-lead parts** (e.g., wire harnesses, composite assemblies) may be delayed<br>• OEMs may stockpile inputs or shift orders preemptively, affecting delivery schedules<br>• Small/mid-size suppliers cannot adapt as quickly | **Global sourcing under structural strain**<br>• **Heavy reliance on globally dispersed supply** increases risk<br>• **Single-source components may become bottlenecks**<br>• Suppliers may begin to regionalize, but timelines for aerospace are long and costly<br>• National security scrutiny may limit sourcing flexibility in defense platforms |
| **Aftermarket / MRO** | **Parts movement incurs added cost**<br>• Tariffs on **parts imported for repairs raise MRO costs**<br>• Airlines sending parts abroad for overhaul may be hit with duties upon re-importation<br>• **Limited pass-through** ability to customers; may **squeeze airline and MRO margins**<br>• Some relief via Mexico and Canada, but exemptions are narrow | **Cross-border flows complicate turnarounds**<br>• **Delays in delivering parts to service due to additional customs processing**, declarations, and inspections<br>• Complex MRO logistics (e.g., multi-stop repairs) may be slowed by inconsistent tariff application<br>• **Turnaround times may lengthen** due to increased documentation burden | **MRO networks face resilience test**<br>• **International MRO networks may see reduced usage**<br>• Smaller **independent MROs are more vulnerable to cost/delay impacts**<br>• OEMs may use tariff dynamics as leverage to consolidate aftermarket offerings or drive vertical integration |
| **Degree of impact** | **High** | **High** | **Moderate** |

Source: Oliver Wyman research, S&P Global, Reuters, Bloomberg

# AIRCRAFT PRODUCTION POST-COVID RECOVERY IS AT RISK OF DISRUPTION DUE TO INTRODUCTION OF TARIFFS

**Global Production of Commercial Airplanes[1]**
2015-2024 actuals; 2025+ forecast




**Potential Disruptions to Production[2,3]**

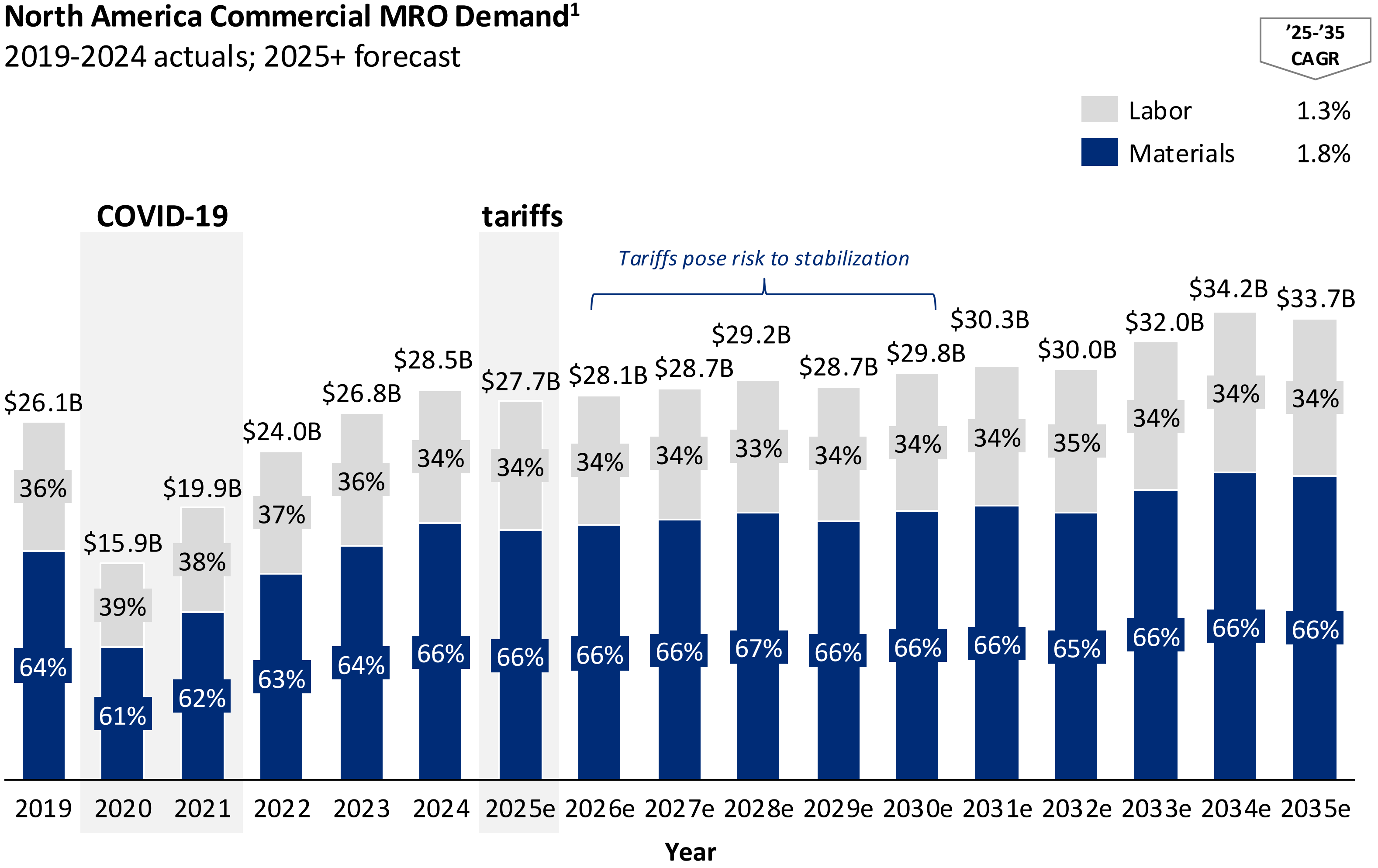
- **Higher steel and aluminum costs constrain key input availability**
  - Boeing and Airbus depend on 30K+ tons of aluminum and ~10K tons of steel annually, especially for narrow-body programs like the 737 and A320
  - Tariffs on these metals would raise input costs, pressure margins, and create procurement delays due to supplier bottlenecks
- **Geopolitical tensions between US and China**
  - China has removed its ban on airlines accepting Boeing planes after Beijing and Washington agreed to temporarily reduce tariffs on one another
  - Boeing currently has ~330 planes in its orderbook scheduled for China, underscoring the magnitude of risk

Source: 1. Oliver Wyman MRO forecast; 2. Flight Plan; 3. Leeham

# MRO AFTERMARKET SPEND IS LARGELY DEPENDENT ON TARIFFED GOODS, EXPOSING THE BROADER INDUSTRY TO TARIFF EFFECTS

**North America Commercial MRO Demand**[1]

2019-2024 actuals; 2025+ forecast



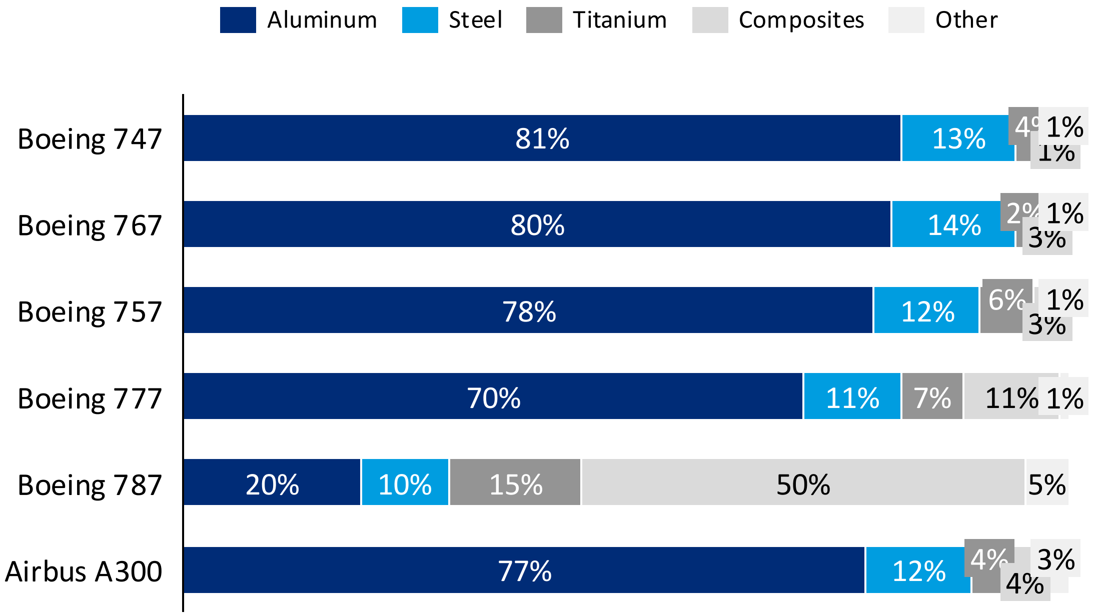

## Commentary[2]

- **Materials Subject to Tariffs; Labor Not Directly Impacted**
  - **Tariffs on Parts/Materials**: Recent US tariffs on global imports – significantly increased costs for parts imported from abroad
  - **Example impact on MRO Services**: A small engine overhaul conducted by Pratt & Whitney Canada saw an added cost of $140K on an overhaul of $1.4M (~10% premium)
- **Demand Stabilization Post-COVID at Risk of Disruption**
  - **Post-Pandemic Recovery**: The North American MRO market reached over $28B in 2024, surpassing pre-pandemic levels
  - **Exacerbation of challenges**: Despite recovery, the industry already faced challenges such as material shortages and labor constraints, with 75% of MRO professionals expecting supply chain issues to persist for another 1-3 years

Source: 1. Oliver Wyman Vector (US and Canada); 2. Oliver Wyman research

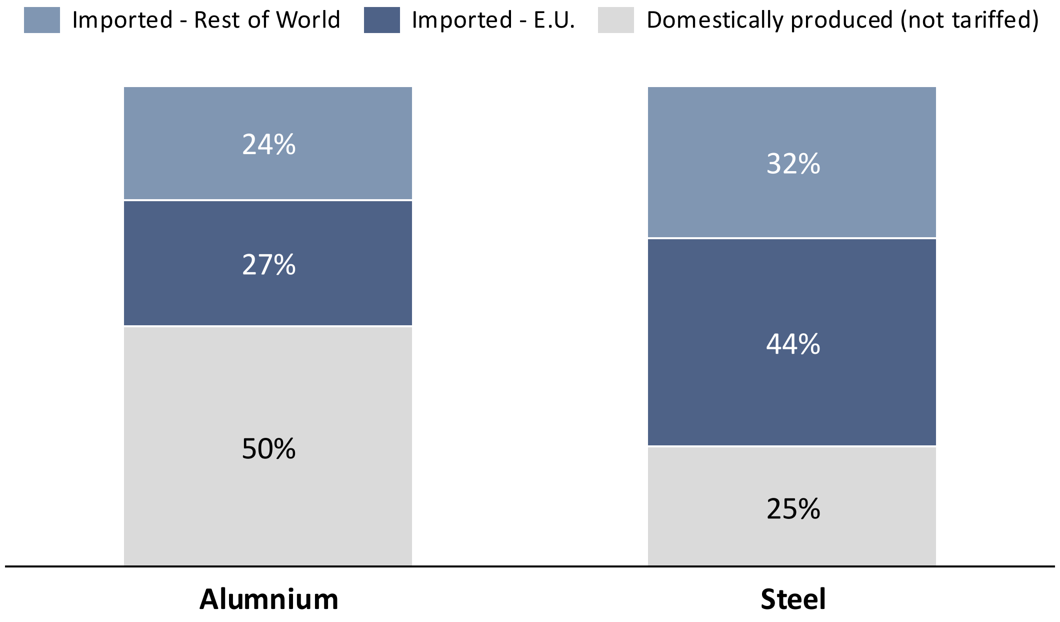
# AIRCRAFT PRODUCTION DEPENDS ON METALS NOW SUBJECT TO TARIFFS, PARTICULARLY STEEL AND ALUMINUM

**Composition of Airplane Models by Raw Material**
% of Airframe Mass




**Vast majority of major airframes (excluding 787) are composed of Aluminum and Steel** – hence tariffs are expected to raise costs and potentially disrupt supply chains…

**US Consumption of Steel and Aluminum by Country of Origin**
$USD, 2024



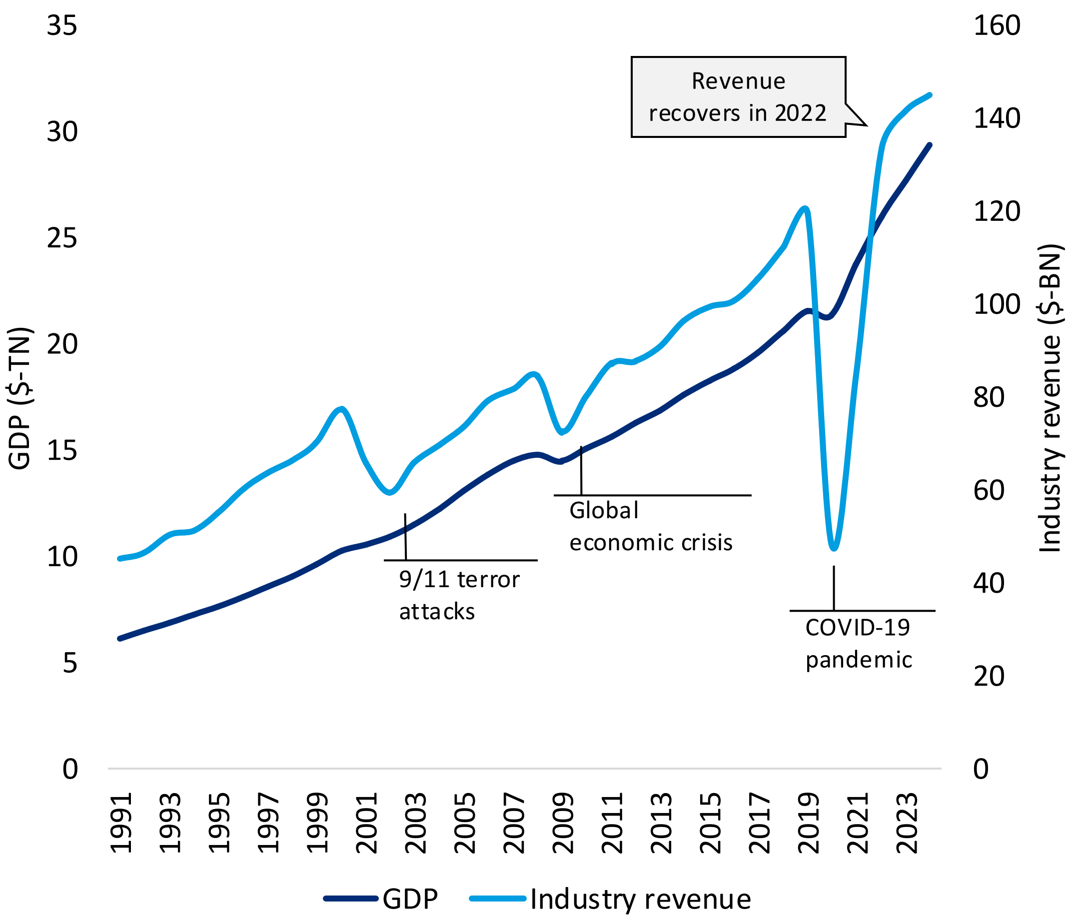

**…a large portion of these essential production inputs are imported,** and will now be subject to various tariffs which will increase the cost of overseas production

Source: US Census Bureau, Pforzheim University, Reuters

# THERE IS A HISTORICAL CONNECTION BETWEEN GDP GROWTH AND COMMERCIAL AVIATION INDUSTRY REVENUE…

**GDP and industry revenue | US industry**

In annual USD




Source: PlaneStats.com/Form 41 and US Bureau of Economic Analysis; Industry revenue is ticket plus passenger-driven ancillary



## Commentary

### Historic context

- **Industry revenue** has historically **grown at a similar rate to GDP during "normal" years**
- **Black swan events** (e.g., 9/11 terror attacks, Global Economic Crisis, COVID-19 pandemic) **have consistently reduced industry revenue** as a portion of GDP
  - i.e., revenue becomes a smaller portion of GDP after each event as recovery "snap back" does not offset lost growth (vs GDP)

### Where we are now

- Industry revenue reset following the pandemic occurred in 2022
- **Revenue is now broadly tracking to GDP**…but
- …the ratio of **revenue to GDP is 0.3 percentage points lower in 2022-2023 than it was in 2010-2019**, which is **consistent with the drop observed after the Global Economic Crisis**

# …HENCE THERE ARE EARLY INDICATIONS THAT COMMERCIAL AVIATION DEMAND WILL BE IMPACTED IN 2025

## Indicators suggest economic declines are inbound

### Consumer Sentiment is falling

- University of Michigan consumer **sentiment index dropped to 50.8 in April 2025**, its lowest level since 2022
- 12-month inflation expectations rose to 6.7%, the highest since 1981

### GDP growth forecasts are downgrading

- OECD: Cut U.S. **2025 GDP forecast from 2.4% to 2.2%; 2026 down to 1.6%**
- Moody's on May 16 **downgraded the credit rating of the United States by a notch to "Aa1" from "Aaa"**

## Effects on commercial aviation are already manifesting

DELTA

**Company cut profit forecast by 50% in Q1 (March 2025)**

- Cited softening domestic demand as primary contributor
- Per CEO Ed Bastian "With broad economic uncertainty around global trade, growth has largely stalled" – April 9, 2025

**Overseas visitor arrivals to the US contracted during Q1 2025**

- 27% decrease in Q1 and 22% in April from travelers from Canada to the US in comparison to last year
- Additional sharp declines were seen from Germany and the UK

Sources: University of Michigan, Federal Reserve Bank, OECD, Oxford Economics, Reuters

# CREATIVE PLANNING IS REQUIRED TO MINIMIZE THE FINANCIAL IMPACT OF TARIFFS

## In the short term, prepare for uncertainty

- **Review force-majeure clauses** in maintenance and procurement contracts, to confirm ability to terminate based on tariffs
- **Strengthen advocacy efforts** through lobbying, public affairs, and collective industry action to push for exemptions
- **Take advantage of 90-day tariff pause** to fast-track planned purchases and bring forward any planned international maintenance (excl. China)
- **Assess domestic surplus and used serviceable materials markets** for potential opportunities
- **Build a view on total tariff exposure** to accurately estimate potential impact, and assess alternatives
- **Evaluate non-tariffed MRO capacity** domestically and abroad

## In the long term, explore avoidance and diversification strategies

- **Evaluate maintenance slot swapping opportunities** with partner airlines, that may not be impacted by tariffs
- **Secure maintenance slots in exempt/ low-rate countries** with robust force-majeure clauses to protect from tariff uncertainty
- **Explore legal tariff minimization strategies**, including potential transfer of assets to preferential tax environments
- **Diversify international maintenance** footprint internationally to mitigate future tariff risks
- **Investigate local PMA opportunities** to sidestep tariffs

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