



# Flying into turbulence: the US Aerospace industry braces for tariff headwinds

Assessing the economic and strategic impact





# Introduction

The aerospace and defense (A&D) industry seems to soar high above the dark clouds cast by the COVID-19 pandemic. Despite facing significant headwinds in recent years, this industry was expected to experience record deliveries in 2025 and beyond. From increasing input costs, to disrupting supply chains, and consequently impacting consumer sentiment, the current administration's tariffs targeting among others China, the EU, and Mexico threaten to severely impact American enterprises.

A rapidly evolving policy outlook and the many uncertainties arising from it compel governments and corporations alike to re-evaluate strategic priorities and operational plans and to recalibrate economic projections. The frenzy of ongoing trade negotiations, coupled with developing global geo-political dynamics, will determine the road ahead. Whether these disruptions give way to new trade frameworks and alternative manufacturing strategies or contribute to prolonged uncertainty and heightened economic friction is not yet certain.

This paper explores the motivations behind these policy shifts and their effects on trade, manufacturing, and, specifically, the aerospace industry. The paper discusses a framework that organizations can leverage to identify the exposure to tariffs and strategic options that can be deployed to navigate the turbulence.





## Policy imperatives:

The recent maneuvers in tariffs are not isolated acts of policy formulation. They are strategic components of a broader economic and geopolitical agenda to enable and create opportunities for US enterprises by bringing down perceived barriers. The key drivers behind these shifts can be categorized into the following dimensions:

### 1. Trade imbalances:

The US has been trying to address longstanding trade deficits, particularly with China, and European Union. By taxing imported goods, the current administration aims to narrow the trade gap and encourage consumption of domestically produced goods.

### 2. Fair trade aspirations:

Tariffs could also be positioned as instruments to drive equitable trade practices. The US seeks to counter perceived unfair advantages such as state subsidies, dumping, and non-tariff barriers that distort global competition.

### 3. Manufacturing sector focus:

Tariffs aim to inject new life into the manufacturing sector. With higher tariffs, the US hopes to incentivize companies to relocate production facilities, rebuild industrial capacity, and, in certain cases, redeploy excess unused capacity to add wealth to local economies.

### 4. Security and intellectual proprietary protection:

National security concerns, particularly around the theft of IP and forced technology transfers, have drawn higher and targeted tariffs. The current administration views these economic levers to render nations' reform practices that compromise US innovation, R&D investments, and long-term competitiveness.

### 5. Reliance on foreign countries for critical products:

The pandemic and recent geopolitical tensions have exposed weaknesses in US supply chains for critical goods, such as semiconductors or pharmaceuticals. Tariffs are part of a broader emphasis to reduce dependency on foreign sources. These measures seek to improve resilience, secure access to essential commodities, and protect national interest.

**These broad policy shifts ripple across the industrial landscape, especially the high-value, globally interconnected sectors. The A&D) sector is no exception and will likely face its own share of turbulence. To better understand these impacts, it is essential to reflect upon the industry, to consider the economies constantly engaged in trading, and to identify the value proposition this industry brings to the American people.**





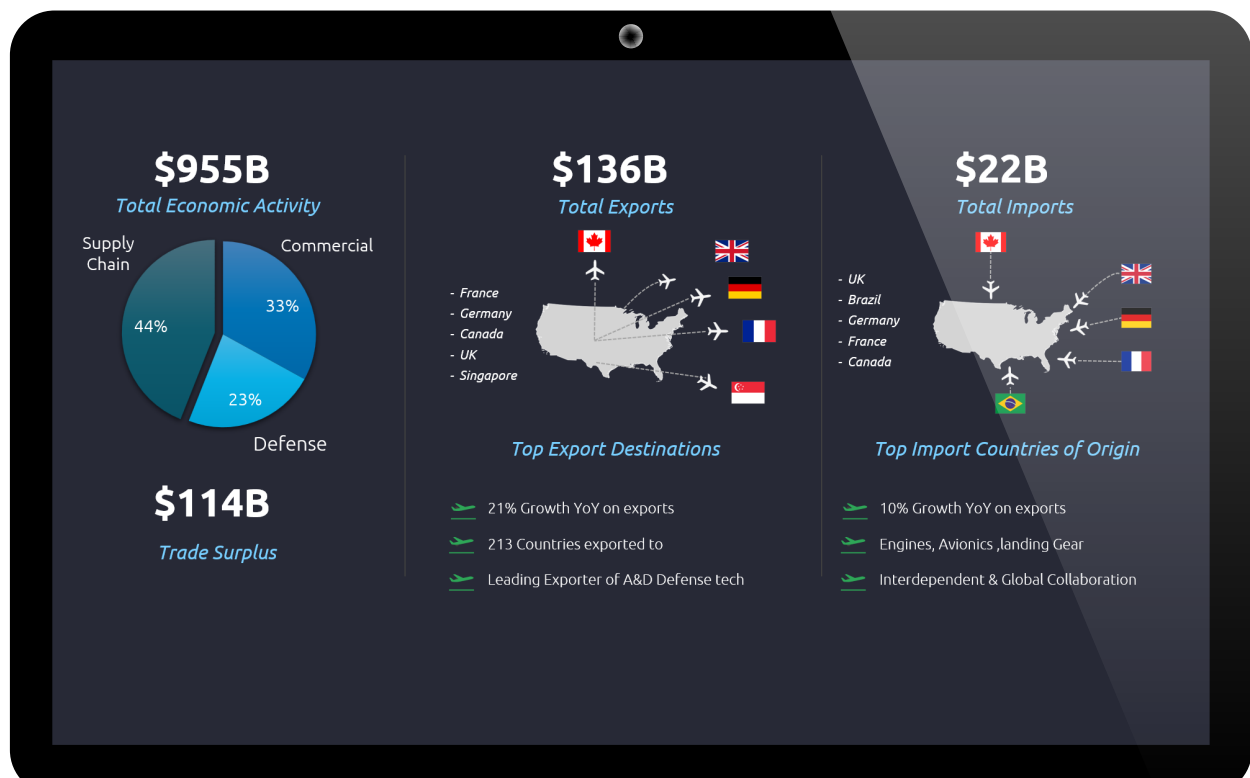
## The post-pandemic US A&D industry

In 2024, the US A&D industry generated ~\$1T in total economic activity, underscoring the sector's immense scale, technological innovation, and global influence. The commercial, defense, and supply chain activities account for \$320B, \$220B, and \$430B respectively.

The industry contributed \$425 billion in economic value added -representing 1.6% of the United States' nominal GDP. This figure reflects far more than the production of aircraft and defense systems; it embodies the creation of high-wage employment, the fabric of local economies, and sustained investment in national capabilities. The true impact of the industry is not solely defined by gross output, but by the enduring economic value it delivers to the American people and the broader economy.

US aircraft manufacturers generate nearly 35% of their total revenue from exports. This figure is as high as 70% for certain corporations. While the immediate focus is to assess the impact of tariffs on import-related input costs, it is equally important to recognize the potential risks to its revenue projections. Escalating trade tensions and the imposition of retaliatory tariffs in export markets could destabilize international sales, exposing the industry to volatility not only in supply chains but also in global demand.

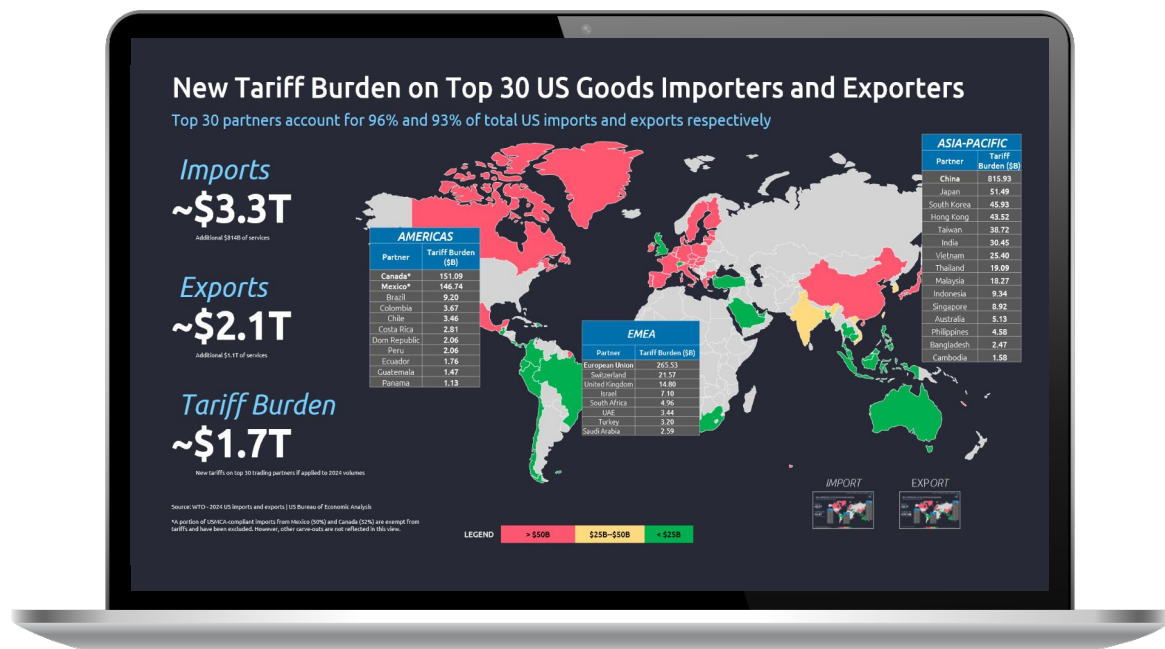
Top trading economies in this industry segment are Canada, the UK, France, Germany, and Japan, each of which faces significant tariffs. It is noteworthy that the US A&D sector records a trade surplus of approximately \$140B. Until there is more clarity on the tariffs, it remains uncertain whether the US will continue to enjoy trade surpluses in this sector.





## Overview of current US tariffs

New tariffs have been levied across a range of goods and targeting 50 plus countries, including China and the EU. These economies are an integral part of the aerospace supply chain.



## Impact on the aerospace and defense industry

The imposition of tariffs is expected to trigger a cascading effect on operational and financial measures within the US A&D sector. This is likely to result in:

### 1. Increased production costs and supply chain disruptions:

Tariffs on imported raw materials (e.g., aluminum, steel, electronics) drive up input costs. These cost increases squeeze margins for manufacturers, especially for fixed-price contracts. The A&D industry relies on a globally integrated supply network for specialized components. Tariffs introduce delays, rerouting of procurement, and potential shortages of goods on US soil.

### 2. Increased financial burden on tier-2 and tier-3 suppliers.

Small and mid-sized tier 2 and tier 3 suppliers stand to face cost spikes driven by tariffs, causing

greater financial risk. Their instability can create domino effects across the value chain.

### 3. Global demand disruptions

Retaliatory actions from trading economies could send global demand into a downward spiral, particularly in commercial aviation and the MRO segments. Additionally, higher production costs may make US aerospace products less competitive internationally.

### 4. Investment uncertainty

Ongoing tariff volatility discourages long-term investment in infrastructure, R&D, and international collaboration. A sector that has only recently recovered from the impact of pandemic will be careful before adding financial risk.

### 5. Higher costs for US defense systems

Higher costs could drive defense contractors seeking adjustments to contract prices. Such adjustments require appropriations, adding significant delays in defense procurement programs.





## Potential scenarios and strategic levers

The future of tariffs will depend significantly on individual nations' interest and motivation to trade with the US and the follow-on negotiations. While it is premature to see a clear path forward, it is certain that the impacts of tariffs could have significant outcomes. Proactive, strategic responses can help companies navigate this turbulent phase and maintain operational resilience. Each individual organization will have to adopt strategies that best fit its financial tenacity and ability to pivot in an ever-changing global landscape. The following measures could help companies strategize as they prepare for the road ahead:

### Immediate: resolutions in 0-3 months

This represents the best-case scenario, with an efficacious global trade order resuming and each country recognizing the impending barriers and devastating outcomes that disruptions cause. This also reduces any longer-term strategic threats.



#### Policy framework expectations

- **Near-term trade diplomacy:** The US focuses on near-term trade diplomacy, defers broad industrial reshaping
- **Selective exemptions:** The US maintains a selective exemption approach to assist the vulnerable segments of the supply chain
- **Strategic engagement:** The US continues to engage meaningfully with trading partners.



#### Key impact

- **Minor supply chain disruptions:** Short-term interruptions in sourcing and logistics without significant long-term structural impact
- **Temporary cost increases:** Modest, short-lived rises in input and operational costs, manageable through near-term adjustments.



#### Potential strategies

- **Incentivize customer loyalty:** Absorb short-term input cost increases to maintain customer relationships and protect future revenue streams
- **Prioritize market share retention:** Accept temporary pressure on P&Ls, recognizing that preserving market share is critical for long-term competitive positioning.



## Transitional: Resolution takes 6-9 months

If negotiations continue for six to nine months there will be a disproportionate impact on US enterprises, especially those heavily reliant on global supply chains. While global trade talks may eventually lead to a phased restoration of order, corporations will face significant margin pressures in the interim.



### Policy framework expectations

- **Bilateral tariff focus:** Prioritize securing targeted tariff reductions with key trading partners, (e.g., aerospace, semiconductors)
- **SME protection measures:** Policies must provide targeted assistance to small and medium enterprises in the ecosystem, including tax incentives, favorable financing terms, working capital assistance
- **Customs and logistics efficiency:** Streamline operations to reduce non-tariff inefficiencies during the transition period.



### Key impact

- **Significant increases in input costs:** Elevated and marked increases input costs
- **Disruption of procurement cycles:** Uncoordinated procurement cycles leading to supply chain delays
- **Emergence of export barriers:** Initial signs of retaliatory measures in export markets.



### Potential strategies

- **Diversified commodity strategy:** Expand commodity sourcing to tariff friendly regions, review tariff classification and leverage local incentives
- **Segmented cash-to-cash management:** Adopt differentiated approaches for cash-to-cash cycles by commodity category to optimize liquidity and working capital efficiency
- **Regional footprint:** Establish regional sourcing and logistics hubs to enable efficient goods re-routing to mitigate tariff corridors.



## Persistent: Resolution yields sustained tariffs

The landscape shifts considerably if the tariffs are extended. This period will coincide with significant Capex-driven expansions becoming operational. As negotiations continue and a new global trade framework gradually takes shape, companies will need to adapt to a more fragmented and strategically reshaped trade environment.



### Policy framework expectations

- **Domestic capacity:** Policies to direct investments in domestic capacity for critical inputs and technologies to reduce reliance on tariff-heavy imports
- **Promote reshoring:** Support reshoring through targeted R&D incentives, tax incentives, and access to infrastructure funding
- **Strategic trade alliance:** Develop long-term trade strategy focused on strategic alliances, geopolitical alignment, and US trade interests
- **Ensure predictable tariff policies:** Establish clear, stable, and transparent tariff frameworks to provide businesses with the planning certainty.



### Key impact

- **Structural increases in input costs:** Sustained elevation in commodity and component fundamentally altering production and procurement economics
- **Shifts in global trade flows:** Permanent changes in global sourcing strategies and sales trends
- **Strategic realignment of supply chain:** Comprehensive structural realignment of supply chains and market access to bolster resilience, regionalization, and cost efficiency.



### Potential strategies

- **Capex-led global supply chain restructuring:** Investment growth to enable regional hubs for sourcing and other functions in tariff friendly nations
- **Enhance operational efficiency:** Invest in automation, digitalization, and local capacity expansion to absorb margin pressures increased competitiveness
- **Business model innovation:** Innovate business models by transitioning from product-based sales to servitization (leasing) model to retain market share.





# Framework for analyzing tariff implications

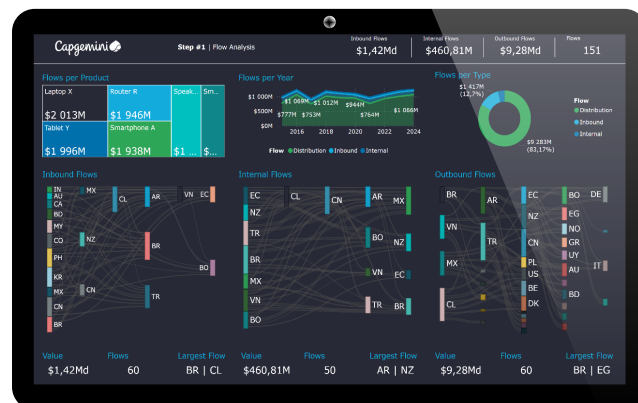
As organizations evaluate the implications of evolving tariff measures, it is critical to adopt a structured and methodical approach. A robust framework to integrate both internal company data and external market dynamics to accurately assess the financial, operational, and strategic impacts are needed. The following five prioritized steps can guide this evaluation:

## 1. Focus on internal data:

Focus on gathering the key data objects that will be instrumental in identifying potential impacts. This includes data such as procurement plan, key suppliers, the origin of the supply and transfer pricing. Additionally, it is important to establish whether any regulatory or exclusionary policies, such as REACH, are involved.

## 3. Tariff burden derivation:

Develop an understanding of the overall financial impact on existing products, keeping in mind the country of origin. This step builds the foundation for deeper analysis: first, understand the competitive landscape and the visible strategies the competition is adopting; second, support scenario analysis.



## 2. Tariff exposure determination:

The purpose of this activity is to understand which products could be the target of tariff impact. The basis for this analysis could be historical data, forecasts, or any other long-range plans. This step is focused on highlighting insights based on internal data.

## 4. Analyze market dynamics

Evaluate how competitors respond to tariff pressures and examine shifts in market positioning. This insight will guide differentiated strategies based on product categories, sourcing regions, and target markets.





## 5. Strategy development:

With clear insights into financial impacts and the competitive landscape, different strategies can be adopted. Such strategies could include supplier diversification, pricing adjustments, market repositioning, or leveraging trade agreements to mitigate risks.





## Conclusion

The A&D sector operates within the confines of an intricate and globally interdependent supply chain. In this context, the imposition of tariffs introduces a range of strategic and operational challenges that affect distinct aspects of this industry. For an industry built on precision, scalability, and international collaboration, the stakes are high.

Yet, these headwinds also present a critical inflection point. By proactively reviewing potential scenarios, industry leaders can build greater resilience in their operations. As global trade dynamics continue to shift, the ability to predict, adapt, and execute with strategic clarity will be essential in sustaining US leadership in the aerospace and defense landscape.





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