Trump’s proposed tennis ball tariff represents a grand slam of terrible trade policy

Want to know how ill-conceived President Trump’s proposed China tariffs are? Look to the tennis ball tariff.

It represents a sort of grand slam of terrible trade policy.

Head Penn Racquet Sports, a division of Colorado-based Head USA Inc., makes the best-selling tennis ball in the United States. It sells about 65 million balls under its “Penn” brand each year, representing nearly two-thirds of all branded tennis ball sales in the United States.

Like other brands, Penn balls used to be made in the United States. One by one, though, all the factories left.

Why? Because tennis balls are low-price, low-margin products, basically commodities. And they exhibit high “elasticity” not just in their bounciness but in their price: That is, tennis ball buyers tend to be very sensitive to small changes in price, and they don’t have a lot of brand loyalty. If Ball A is 50 cents cheaper than Ball B, most customers will buy Ball A. So trimming costs — for example, by cutting labor costs — confers a huge advantage.

About a decade ago, racquet sports division president Greg Mason says, Head became the last U.S.-based tennis ball manufacturer to move production abroad. It invested about $25 million in building a state-of-the-art facility in China, which makes around 100 million balls each year for the global market.

Then, last month, Trump announced plans to impose a 25 percent tariff on the remaining $300 billion of Chinese imports so far untouched by his trade war.

The thousands of items on the list are primarily consumer products, including clothes, shoes, toys, cellphones — and yes, the humble tennis ball.

Multiple Head products would be affected, including higher-ticket items. But Mason is especially concerned about tennis balls. Given the thin margin on balls, the company could not eat the cost of the tariff or expect the retailer to do so; instead, the 25 percent tariff would be passed along to consumers.

“Prices will go up immediately,” Mason told me. “Our entire business would have to be relooked at.”

So Head decided to, err, make a racket.

Last week, Mason testified in hearings held by the U.S. Trade Representative, in which he politely begged the administration to take tennis balls off its proposed tariff list. He explained that the tariffs would lead to an expected sales decline of 50 percent, a loss of $22 million in revenue for Head. That would require a layoff of about 15 percent of its U.S. workforce — affecting people in sales, marketing, warehousing and customer service.

Now Trump might spin this sob story as evidence that more offshored manufacturing should return home. But Mason says the economics of a U.S.-based tennis ball factory in the 21st century are impossible. There is just no way to offer American workers a competitive wage to make a product that retails for about $2.50 per three-ball can.

Head also can't move to another low-cost country, at least not overnight.
"It's not hard to make a tennis ball, but it is hard to make one consistently within the specs the International Tennis Federation requires for a tennis ball," Mason says. Balls need a certain weight, circumference, bounce and resistance to humidity, requiring lots of testing and training.
As a result, "It's a minimum three to five years to move to another facility that would have similar quality to what we have now."
Mason emphasized that he supports the objective of forcing China to drop its unfair trade practices, including intellectual property theft and "Made in China 2025." But he also doesn't understand how forcing a midsize Colorado sports equipment company to raise prices, lose money and lay off workers would further that goal.

Which is pretty much what everyone else who testified over the past week and a half — including companies that sell Bibles, prom dresses and baby strollers — pointed out about their own products.
There's another reason tennis balls represent a sort of unforced error.
Head's two main competitors for the U.S. tennis ball market also manufacture in Asia, but primarily from Thailand and the Philippines. Which is why Head forecasts such large revenue losses if the tariffs materialize: The price of its own imported balls will rise 25 percent, while those of its rivals won't. Head expects to lose a ton of market share.
Plus, if you Google Head's closest competitor, Wilson (which produces mostly in Thailand), you'll learn that its parent company was recently purchased by a Chinese multinational, Anta Sports. Which means the primary beneficiary of the Trump administration's proposal to tariff Chinese tennis balls will likely be . . . a Chinese company.

This is not the only case in which a Trump trade action double-faulted. A Chinese-owned pork company qualified for Trump's farmer trade bailout (though it withdrew from the program after public outcry). Trump has also somehow nudged China to lower tariffs on every country *except* ours.
Game, set, match — to someone else.