From Ban to Tariff Wall: How U.S. Drone Policy Is Reshaping the Global Supply Chain

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Key Takeaways

- The WisdomTree Physical AI, Humanoids, and Drones Fund (WDRN) has had zero exposure to Chinese companies since its May 2026 inception.
- New Section 232 tariffs of up to 100% on imported drones take effect September 3, 2026, with component tariffs following in February 2027.
- WDRN holdings such as Unusual Machines, Red Cat Holdings and AeroVironment operate in segments directly affected by the new tariff structure.

On August 13, 2026, President Trump signed a Proclamation imposing tariffs of up to 100% on imported drones and drone components, invoking Section 232 of the Trade Expansion Act of 1962 on national security grounds.1 The headlines focused on the eye-catching rate, but to understand what this action actually means, which is to say for investors, for industry and for the competitive dynamics of one of the fastest-growing technology sectors in the world, it's important to understand that today's tariff is not the beginning of U.S. drone policy. It is the latest layer in a policy architecture that has been under construction for seven years.

A Policy Built in Layers

The U.S. government's effort to restrict Chinese drone technology from domestic markets, and in particular from government supply chains, began long before any single headline announcement in 2026.

In October 2019, the Department of the Interior grounded its entire fleet of approximately 800 drones, virtually all of which contained Chinese-made components, citing cybersecurity concerns. The Department of Justice followed with similar spending prohibitions. Then in December 2020, DJI, the dominant global drone manufacturer, was added to the Commerce Department's Entity List, placing it alongside Huawei on the trade blacklist.2

The second major escalation came in December 2025, when the Federal Communications Commission added all foreign-made drones and foreign-produced drone components to its Covered List, the register of products deemed to pose an unacceptable risk to national security.3 This was a market access mechanism, and it did not require anyone to ground an existing drone, but it effectively barred new foreign drone models

from receiving FCC authorization for sale in the United States. Existing inventory was grandfathered. The future was closed.

The December 2025 action drew immediate pushback from across the drone industry, including from public safety agencies like police departments, fire departments and search-and-rescue teams, that had come to depend heavily on DJI platforms. On January 7, 2026, the Department of War issued a National Security Determination carving out two categories of exemption from the Covered List:4

- Drones and components appearing on the government's Blue UAS Cleared List,
- Drones qualifying as domestic end products under Buy American standards.

Both exemptions were set to run through January 1, 2027. The FCC has since moved to tighten enforcement on the other side of the equation, initiating its first-ever equipment authorization revocation proceeding against a drone company, Odyssey Robot LLC, that allegedly falsely claimed domestic manufacturing to circumvent the ban, and proposing $25,000 forfeitures against eight additional companies linked by independent researchers to the marketing of foreign-made drone technology in the United States.5

August 13's Proclamation adds a third, distinct instrument: **Price.**

The Tariff Architecture

The new tariff structure is tiered in ways that carry significant strategic meaning.6

At the top of the structure, a **100% ad valorem tariff** applies to drones with a maximum takeoff weight above 25 kilograms and to any drone with thermal imaging capabilities, along with their docking stations and critical components. This bracket captures the industrial, infrastructure inspection and defense-adjacent commercial segment, platforms where national security considerations are most acute.

A **25% tariff** applies to smaller drones lacking the most sensitive capabilities, and to a broader range of components. This catches the consumer and prosumer commercial segment, the market DJI has dominated globally.

Then comes the diplomatically significant layer. A **15% tariff** for drones and components originating from the European Union, Japan, South Korea, Switzerland, Liechtenstein and Taiwan, and a **10% rate** for the United Kingdom, conditioned on substantially all hardware, software and technology originating within those countries or the United States. The allied-nation carve-out is not a gift. It is an incentive structure designed to direct manufacturing investment toward geopolitically trusted supply chains.

The main tariffs take effect September 3, 2026. Component tariffs on less sensitive parts do not kick in until February 9, 2027, acknowledging how deeply embedded foreign-sourced components are in existing U.S. drone supply chains, and giving domestic and allied manufacturers time to adjust.

The Commerce Secretary has also been authorized to establish an onshoring incentive program for companies making new domestic manufacturing investments.

Taken together, the U.S. has now deployed two functionally distinct regulatory instruments against foreign drone manufacturers.

1. Market access denial through the FCC Covered List
2. A price weapon through Section 232 tariffs

For Chinese drone manufacturers, the combination is formidable.

What This Means for WDRN

The WisdomTree Physical AI, Humanoids, and Drones Fund (WDRN) holds companies across the full drone and robotics ecosystem, from domestic U.S. manufacturers and defense-aligned drone platforms to allied-nation precision component makers and the semiconductor companies enabling autonomous systems. The layered policy environment maps onto this portfolio in a way worth unpacking.7

Domestic U.S. beneficiaries include some of the fund's most direct drone holdings.

- Unusual Machines (3.09%), one of the larger holdings in the fund, has explicitly positioned itself as a domestic alternative to DJI in the consumer and commercial segment, with a supply chain strategy aimed at reducing Chinese component dependence. The tariff wall now rising around competing foreign products creates meaningful market space for companies like UMAC to scale.
- Red Cat Holdings (2.03%) and AeroVironment (1.50%) operate in the defense drone segment, platforms already cleared under the Department of Defense (DoD) Blue UAS list, where the 100% tariff bracket on large and thermal-capable systems reinforces their competitive moat.
- AEVEX Corp. (1.51%), a recent addition to the fund, manufactures ISR and surveillance drones. This is precisely the thermal-imaging-capable category at the top of the tariff schedule.
- Ondas Holdings (2.51%), through its American Robotics subsidiary, makes autonomous drone-in-a-box systems for industrial inspection.
- Kratos Defense (1.80%) rounds out the U.S. defense drone exposure.

Allied-nation manufacturers benefit from the carve-out structure in ways that reflect the fund's intentional geographic diversification.

- South Korean holdings, including Doosan Robotics (2.00%) and Rainbow Robotics (2.60%) face the 15% allied-nation rate rather than the 25% or 100% levies applied to non-allied foreign manufacturers, preserving a competitive cost advantage over Chinese rivals.
- Japanese precision motion and component manufacturers, such as Harmonic Drive Systems (3.48%), Nabtesco (2.01%), Yaskawa Electric (1.70%), Fanuc (1.51%) and Kawasaki Heavy Industries (1.26%), are similarly positioned at the 15% rate. These companies make the high-precision actuators, reducers and motion control systems that go into both drones and industrial robots; their supply chain role is reinforced, not disrupted, by a policy architecture designed to direct dependence away from China.

- Leonardo SpA (2.62%), the Italian defense and aerospace manufacturer, benefits both from the European Union (EU) allied-nation carve-out and from Europe's broader defense rearmament cycle.

Enabling infrastructure, which includes semiconductors and sensors, forms another segment of WDRN's exposure.

- STMicroelectronics (2.01%), NXP Semiconductors (1.70%), Qualcomm (1.00%), Renesas Electronics (2.01%) and Allegro MicroSystems (1.00%) all produce chips and components embedded throughout drone systems. The February 2027 delayed effective date for less-sensitive component tariffs gives these supply chains time to adapt, and the allied-nation carve-out explicitly rewards hardware and software originating from the geographies where many of these companies design and manufacture.
- NVIDIA (5.00%) and Tesla (4.50%), the fund's two largest weights, have broader physical AI exposure, covering such areas as autonomous driving, edge computing and humanoid robotics, that the overall policy of accelerating domestic technology manufacturing continues to support.

The Deeper Investment Thesis

What the layered structure of U.S. drone policy reveals may be something more durable than a single tariff decision.

We see a sustained, bipartisan commitment to reshoring and ally-shoring strategic technology supply chains, using every available policy tool, such as export controls, market access restrictions, tariffs and direct investment incentives, in a coordinated sequence.

For investors, this creates a multi-year demand signal for the domestic and allied-nation companies positioned to fill the gap. The U.S. drone market is large, growing and, by design, being progressively closed to its current dominant supplier. Public safety agencies, agricultural operators, infrastructure inspection companies and defense contractors are all being pushed, at varying speeds, toward non-Chinese alternatives. The domestic industry is nascent but scaling. Allied manufacturers in Japan, South Korea and Europe are well-positioned as intermediate beneficiaries.

WDRN has had zero exposure to Chinese companies since its May 2026 inception, and it is constructed to capture exposure across this transition.

1 Source: The White House. (2026, August 13). *Fact sheet: President Donald J. Trump bolsters national security and strengthens U.S. supply chains by imposing tariffs on drones and their parts and components*.

2 Sources: U.S. Department of the Interior. (2020, January 29). *Secretary's Order 3379: Unmanned aircraft systems* [Secretary's Order]; U.S. Department of Commerce, Bureau of Industry and Security. (2020, December 22). Addition of entities to the Entity List, revision of entry on the Entity List, and removal of entities from the Entity List. *Federal Register*, *85*(246), 83416–83425.

3 Source: Federal Communications Commission, Public Safety and Homeland Security Bureau. (2025, December 22). *FCC updates Covered List to add certain UAS and UAS components* [Public Notice, WC Docket No. 18-89].

4 Source: Federal Communications Commission, Public Safety and Homeland Security Bureau. (2026, January 7). *Public Safety and Homeland Security Bureau announces exemption of certain uncrewed aircraft systems (UAS) and UAS critical components from FCC Covered List* [Public Notice, DA 26-22, WC Docket No. 18-89].

5 Source: Federal Communications Commission, Office of Engineering and Technology & Public Safety and Homeland Security Bureau. (2026, July 21). *Order to show cause: In the matter of Odyssey Robot LLC* [DA 26-746, WC Docket No. 18-89].

6 Source: The White House. (2026, August 13). *Fact sheet: President Donald J. Trump bolsters national security and strengthens U.S. supply chains by imposing tariffs on drones and their parts and components*.

7 The percentages following each company name refer to the announced targeted weights for the WisdomTree Physical AI, Humanoids and Drones Index, which WDRN is designed to track before fees and expenses. Data was posted as of August 13, 2026 and will be effective on August 21, 2026. **Holdings subject to change.**

Important Risks Related to this Article

There are risks associated with investing, including possible loss of principal. Companies engaged in Physical AI Activities are subject to unique regulatory, operational and technological risks, such as intense competition and potentially rapid product obsolescence. The regulation of such companies in the United States and other countries is diverse and rapidly evolving, which may inhibit or delay adoption. These companies are also heavily dependent on intellectual property rights and may be adversely affected by loss or impairment of those rights. Companies engaged in Physical AI Activities typically invest significant amounts of spending on research and development, and there is no guarantee that the products or services produced by these companies will be successful. Humanoid robotics companies are sensitive to trends in industrial production, capital-expenditure cycles, supply-chain conditions, and adoption rates of automation technologies across varied sectors including business and industrial end-users.

Humanoid robotics companies may have long and capital-intensive development timelines, highly uncertain paths to profitability and large-scale deployment, and limited product lines, markets, financial resources or personnel. Drone companies may be dependent on the U.S. Government and its agencies for a significant portion of their revenues, and the commercial and military adoption of drone technologies remains subject to extensive and evolving governmental oversight, including aviation safety standards, airworthiness certification requirements, export controls, and national security reviews. A fund that has a portfolio that is concentrated in the securities of issuers in a particular industry or group of related industries, may be adversely affected by the performance of those securities, and more susceptible to adverse economic, market, political, or regulatory occurrences affecting that industry or group of related industries.

Investments in non-U.S. securities involve political, regulatory, and economic risks that may not be present in U.S. securities. For example, foreign securities may be subject to risk of loss due to foreign currency fluctuations, political or economic instability, or geographic events that adversely impact issuers of foreign securities. Investments in securities and instruments traded in developing or emerging markets, or that provide exposure to such securities or markets, can involve additional risks relating to political, economic, or regulatory conditions not associated with investments in U.S. securities and instruments or investments in more developed international markets.

The Fund invests in the securities included in, or representative of, its Index regardless of their investment merit and the Fund does not attempt to outperform its Index. The composition of the Index is governed by an Index Committee and the Index may not perform as intended. Please read the Fund’s prospectus for specific details regarding the Fund’s risk profile.