The New US Tariff Landscape: An Australian Perspective

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Following the recent proposed tariff reforms announced by the Trump administration, we have provided some insights from an Australian perspective on the challenges and opportunities which these tariffs present.

1. Do the tariffs affect Australia?

Australia not specifically targeted but will be affected

The tariffs, which are scheduled to take effect on 12 March 2025, are not actually aimed specifically at Australia.

However, there are still major consequences for Australian businesses and a domino effect from the impact on other countries.

It may take 3 to 6 months to see the full underlying effect although some changes will undoubtedly be more immediate.

It is important to understand the background to the Australia / US relationship in order to appreciate the relative positions of the two countries.

Australia's prosperity is built in large part on international trade. Exports make up more than a quarter of our gross national product and the US ranks as our fifth-largest export destination (behind China, Japan, South Korea, and India). So, anything that reduces international trade is not good news for Australia.

Our strategic relationship with the US is grounded in our two-decade old Australia-United States Free Trade Agreement (AUSFTA) and more recently in the AUKUS defence strategic partnership. Whilst Australia is an important strategic location in the Asia Pacific region, we are heavily dependent on US military support and defence.

Whilst there has so far been no specific threat of tariffs to be imposed on Australia, the Office of the United States Trade Representative recently reported that it regarded several of Australia's barriers to US trade as high priority barriers and potentially unfair trade practices, and we understand that countering 'unfair trade practices' against the US is a key agenda item under the Trump administration's 'America First Trade Policy'. Also, senior counsel to the president, Peter Navarro, recently accused Australia of killing the US aluminium market. These are warning signs that Australia may not be immune.

2. What Australian goods are affected by the tariffs?

Tariffs directly affect steel and aluminium in Australia but also indirectly some critical minerals, wheat, canola oil and beef

Australia previously had an exemption from tariffs on steel and aluminium, subject to an informal agreement to manage export volumes. However, the recent imposition of 25% tariffs on all imports of steel and aluminium terminated the existing exemptions on imports from Australia (and other countries including Argentina, Brazil, Japan, South Korea, and the United Kingdom).

The Australian Government is confident that it can secure another exemption or quota restriction from these measures as it did in President Trump's first term. However, time is running out (the proposed implementation date is 12 March 2025) and there is also an election due in Australia in the next couple of months.

3. Can the tariffs be challenged?

There are a few options to challenge the tariffs:

WTO dispute resolution

A challenge in the Dispute Settlement Body of the World Trade Organisation. However, the WTO dispute settlement mechanism currently lacks a functioning Appellate Body due to the US blockade of reappointing judges, and the US is not even a party to the Multi-Party Interim Arbitration Arrangement.

Unilateral action

Affected countries might resort to unilateral retaliatory measures. When Trump imposed tariffs on EU steel and aluminium in 2018, the EU, Canada, Mexico, Turkey, India, and Russia responded with their own tariffs, and China also responded with massive retaliatory tariffs, which escalated into a trade war.

FTA breach

There is a clear breach of the AUSFTA. The AUSFTA contains a dispute resolution process but it is designed to be cumbersome and slow-moving, and there is a very low chance of Australia invoking that clause (at least partially because it is militarily dependent on the United States and does not want to anger President Trump).

While the AUSFTA does allow financial compensation for a breach, it is capped at $15 million (which is obviously a negligible amount in the context of global trade). And the AUSFTA never contained any provision for investor-State dispute resolution. This would ordinarily allow individual foreign investors affected by a treaty breach to seek compensation from the responsible host State. However, Australia lacked the bargaining power to ask for this and the US did not offer it.

4. What are the adverse impacts on Australia?

Difficult to assess the impact, as we anticipate there will be ongoing changes to the position but potential issues fall into categories of cost of business, competition, economy and global trade

Cost of doing business

1. *Cost of operations in the US increase* – supply chain costs for Australian businesses with operations in the US may rise, as many of these businesses depend on supply chains linked to nearby markets such as Canada and Mexico or are integrated with value chains that rely on Chinese goods for intermediate or finished products, resulting in a significant cost in procurement.

2. *Indirect impact through global supply chains* – many Australian companies are part of global supply chains that involve the US and China, and any increased costs there will affect the entire supply chain.

3. *eCommerce shipments direct to US customers may slow and costs may increase* – with many Australian retailers selling goods of Chinese origin direct to US customers under the '*de minimis*' arrangements (ie. less than US$800), businesses may face increased costs in the form of tariffs and administrative / border clearance costs.

4. *Compliance burden and cost to increase* – the introduction of additional tariffs will lead to increased scrutiny and compliance costs, as businesses must prove the 'true origin' of goods to US regulators as they seek to ensure protectionist tariffs have not been circumvented through transshipment or altering supply chain.

5. *Freight in a potential state of flux* – shipping volume fluctuations, trade route adjustments and capacity reallocation as tariffs potentially alter the flow and volume of goods between countries and make shipping space/availability and costs volatile. Given Australia's geographical isolation, the volatility in cost and reliability of freight could become significant to supply chain cost and performance.

Competition

6. *Australia could become a 'dumping ground'* – as the US tariff policy raises international trade costs and decreases product demand in the US market, foreign businesses might seek alternative markets, such as Australia, to dump excess stock. This could lead to increased local competition and create downwards pressure on domestic prices. Consequently, there could be a move to implement anti-dumping measures to safeguard local industries.

7. *Increased competition in non-US markets* – domino effect of tariffs:

   a. Canadian farmers, locked out of the US market, could flood other markets with cheaper wheat and canola, undercutting Australian farmers. Canola is Australia's third biggest crop and a significant agricultural export. Grain Trade Australia has already warned that price drops could hit local producers hard.

   b. Inability to sell products in the US could prompt overseas producers to sell cheap steel and aluminium in Australia which undercuts the local manufacturing sector.

   c. Canada and Mexico are major suppliers of cattle and beef to the US. Tariff retaliation will disrupt that trade and as a result Australian beef and cattle prices would rise. Australian meat, wine, and other agricultural goods comprise most of the exports from Australia to the US. If tariffs rise to a level that make these products uncompetitive with US produced substitutes, there is a significant risk to the Australian rural economy.

Economy

8. *Currency fluctuations* – global trade tensions can lead to fluctuations in currency markets, affecting Australian businesses who buy and sell in international markets. A falling Australian dollar may be favourable to exporters but is not favourable to importers. Higher prices for imports are bad news for inflation and anyone planning a trip to Disneyland.

9. *GDP* – the tariffs could trigger a decline in GDP across all affected countries.

10. *Interest rates* - may remain higher for longer, which may have a stifling effect on M&A activity in the Australian market.

11. *Stock market valuations* - Australian companies which have high exposure to the US and global trade may see drops on the stock market as was seen previously when there was a risk of a trade war (eg. Fortescue dropped 7.3%, BHP dropped 41% and Rio Tinto fell by 3.1%). After the tariff announcement, Australia's benchmark S&P/ASX200 index shed more than 1.8% of its value by late afternoon.

Global trade

12. *Global markets* - detrimental impact on the overall stability of global markets, which can lead to reduced investments and less benefit from international trade.

13. *Knock-on effect from China* - any economic slowdown in China as a result of tariffs will have a trickle-down effect on demand for key exports. If China reduces its imports of iron ore, coal, and gas, that could translate into lower revenues for Australian resources companies and potential job losses in mining-dependent regions.

14. *FTAs* – the tariffs could prompt some countries to renegotiate existing free trade agreements or implement new ones.

15. *Trade war* – if this develops into a full-blown trade war, global trade could slow down, impacting Australia's resource exports. Also central banks in other affected countries may cut interest rates aggressively to stimulate their economies. If that happens, Australia could find itself in a tricky position trying to balance economic growth against inflationary pressures caused by a weaker currency and rising import costs.

5. What are the potential opportunities for Australia?

Difficult to assess but there are potential advantages in economy and global trade

1. *Increased sales and employment* - China has hinted at retaliatory measures that could affect the global supply of essential minerals like tungsten bismuth tellurium and molybdenum (critical for radar systems, missile guidance systems, electric vehicles, smartphones, batteries, magnets, wind turbines, and solar panels). China effectively has a monopoly over the supply and processing capability for these minerals. Australia is a major source of these minerals and Australian companies could benefit from customer interest as global buyers look for stable, non-Chinese suppliers. Also, any additional investor interest could lead to job growth.

2. *Expansion into US markets for Australian-made products* – with Australia not directly affected by the US tariffs, US consumers might favour sourcing Australian-made products since they can still benefit from the AUSFTA to reduce potential customs duty costs. This could be an opportunity for Australian businesses to enter or expand their presence in the US market.

3. *Increased exports* - a weaker Australian dollar could help exporters by making Australian goods cheaper overseas. This could also stimulate the M&A market as

Australian businesses will represent better value for foreign buyers and investors, who may take this opportunity to acquire businesses here.

4. *Reduced interest rates* – the Reserve Bank of Australia might be more inclined to cut rates if the economy takes a hit from falling trade.

6. What should businesses do now?

Assess existing arrangements, explore alternative arrangements, insure against risk, use technology, monitor situation

1. *Assess impact* – analyse impact of tariff increases on offshore purchases and sales, and whether manufacturing models need to be changed, or sourcing needs to be diversified. Consider the related tax implications.
2. *Explore customs strategies to combat rising costs* – assess tariff classifications used to potentially access lower duty rates, utilising available free trade agreements and free trade zones (where available), utilise duty drawbacks (where available). Technology platforms can assess the options and recommend a course of action.
3. *Review pricing* – analyse whether you can pass tariff costs on or renegotiate pricing and Incoterms to shift or share increased costs.
4. *Consider freight contracting strategy* – consider which trade lanes may merit forward versus spot contracting arrangements.
5. *Manage currency fluctuations* – consider using financial instruments to hedge against currency fluctuations and other risks associated with the tariffs.
6. *Monitor latest developments and geopolitical shifts* – monitor geopolitical developments and potential retaliatory actions and adapt strategies to minimise the risks and costs.
7. *Use technology* – consider adopting digital tools and systems to enhance supply chain visibility, efficiency and better manage cross border duties and taxes.
8. *Engage in policy advocacy* – advocate with government for policies that support Australian businesses and minimise adverse impacts from foreign tariffs.

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