

Impacts of Trade Tariffs

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Introduction

As we approach 2025, the global trade landscape is marked by significant volatility and uncertainty. Escalating trade tensions between the US, Canada, and Mexico, along with the imposition of retaliatory tariffs on the EU, add layers of complexity to the situation. Furthermore, China's measures to counteract US tariffs have added more uncertainty. Consequently, these geopolitical dynamics and trade retaliations profoundly impact commodity values, which are highly reliant on international trade and bilateral trade agreements.

Import Duties and Tariffs

Both tariffs and import duties serve purposes for either generating revenue or providing economic protection, or both. Classified as **indirect taxes**, they are levied primarily on goods and services and are regressive in nature. This means that the tax is applied uniformly, irrespective of the income level of individuals. Due to the consumptive nature of indirect taxes, consumers with higher incomes might pay a relatively small share of the tax, while low-income consumers will shoulder a disproportionate share. Indirect taxes are charged by a supplier or manufacturer that passes on the tax to the consumer, who ultimately pays it. The supplier or manufacturer then remits it to the government. Examples include GST in Australia, VAT in European Union countries, and sales tax in the US.

Deeper Dive into Import Duties

Import duties are macroeconomic tools that countries impose to protect their domestic industries against foreign markets, often referred to as **protectionism policies**. Whenever you import a product into a country, you'll incur duty fees, known as import taxes or customs duties. These are set by the government to determine how freely a product can be imported into the country. Import duties are imposed on specific products, irrespective of the country of origin, and are taxes on the particularity of a product.

Import duties are calculated and calibrated by thoroughly examining economic policies, the demand and supply situation, and are effective for a longer period. These duties are also efficient in generating large revenue streams for governments.

Tariffs

Tariffs, similar to import duties, are used as a punitive tax for specific products or against specific countries, or both. They are implemented as punishment taxes to counteract the excessive dumping of commodities, which can subsequently affect prices and disrupt domestic markets. Specifically, tariffs are levied on products from certain countries that have the potential to undermine the importing country's domestic market by offering goods at prices lower than those of domestic producers. When implemented wisely, tariffs protect local jobs and companies by shielding them from international competition.

However, Trump's tariff threats on Canada, Mexico, EU, and India can be termed as ideological taxes. These describe how political beliefs and values can shape the design,

implementation, and interpretation of tax policies. Trump's tariffs are spur-of-the-moment taxes imposed to fulfill a personal economic agenda and ideology.

The Aftermath

In today's globally interconnected economy, few policies are as detrimental and harmful as protectionism. Mr. Trump's declaration of what he calls "**Liberation Day**"—the day the U.S. begins to impose tariffs—may mark a significant turning point not only for the U.S. but also for economies worldwide. This trade shift will unfold gradually over time and will have impacts across global economies.

Firstly, economic decoupling may occur—a process where countries reduce their economic interdependence. As the U.S. embraces protectionist policies and distance itself from its allies, foreign nations may reroute their trade agreements and supply chains away from American markets. This could lead to fragmented global trade blocs, potentially isolating the U.S. from major economic networks and diminishing its global influence. The short-term impacts of a trade war on American agricultural producers and the broader agricultural industry include immediate price volatility and decreased market access.

Secondly, there may be a **trade realignment**. This involves a shift in global trade patterns as countries seek alternative markets and partnerships to reduce their exposure to unstable or hostile economic policies. For instance, China has recently started purchasing soybeans from Brazil, bypassing the U.S., thereby severing U.S. farmers from one of their largest agricultural export markets. Persistent trade conflicts can lead to a loss of market share as global buyers turn to more reliable suppliers, potentially causing lasting harm to the U.S. agricultural sector. As the saying goes in trade, "the world is a marketplace, and we are all merchants." Trade never ceases; it merely evolves, whether you are part of it or not.

Thirdly, the phenomenon of **de-dollarisation** could emerge. With the realignment of global trade, countries may reduce their reliance on the U.S. dollar as a reserve currency, medium of exchange, or unit of account, and shift towards other mediums and foreign exchange payment systems to settle their trade balances. As demand for the U.S. dollar diminishes, so too does its intrinsic value against other currencies. This could lead to significant currency substitution, potentially dethroning the U.S. dollar as the pivotal point in defining currency exchange rates—a shift reminiscent of what happened to the British Pound post-World War II. Such changes often result in hyperinflation, disrupting the supply and demand dynamics in the markets.

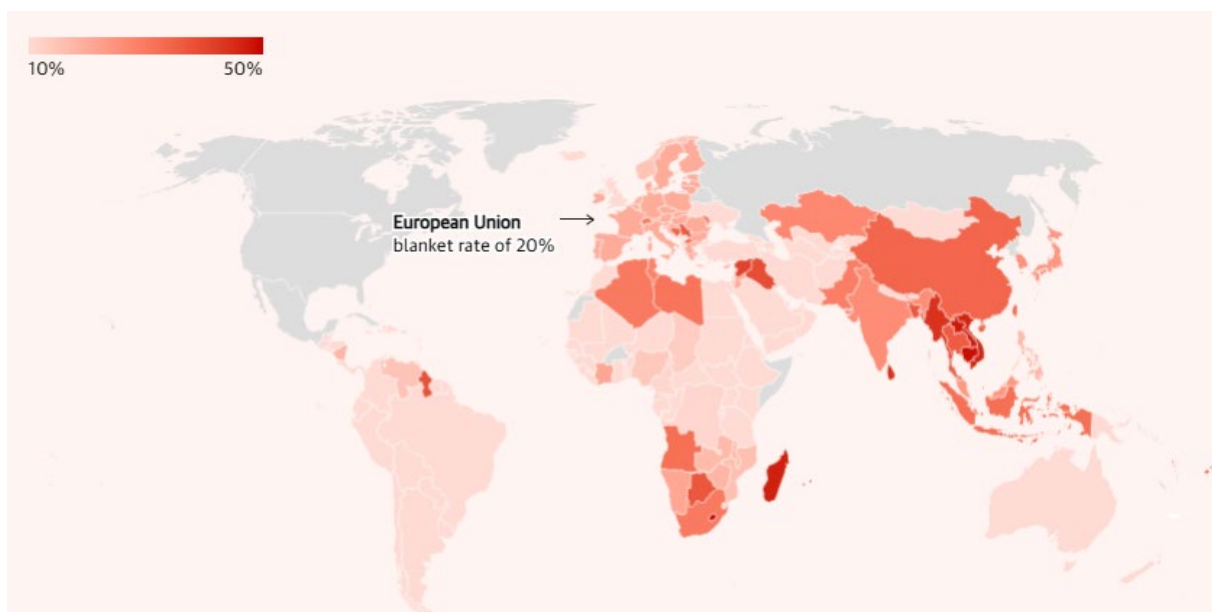
Australia: Opportunities and Challenges

The evolving trade landscape presents a mix of opportunities and challenges for the Australian economy and its trade policies. In the unpredictable arena of trade and tariff wars, allies can turn into adversaries, and vice versa. As a result, Australia must be ready to adapt swiftly to these changes.

The economy might face challenges such as disruptions in exports and vulnerabilities in the supply chains of both hard and soft commodities. However, every challenge also brings opportunities. Australian businesses might have the chance to diversify their markets and explore new regions in this trade war.

In 2024, China imported \$24.7 billion worth of farm products from the U.S., which accounted for 14% of the total U.S. agricultural exports valued at \$176 billion. The strained relations between the U.S. and China present significant opportunities for Australia. From 2021 to 2024, Australia exported approximately 70% of the total value of its agricultural, fisheries, and forestry production. The export orientation of each industry varies depending on the type of commodity. In the fiscal year 2023-24, Australia's exports in these sectors amounted to \$75.6 billion, with about \$14 billion worth of agricultural goods exported to China. Among these, grains, oilseeds, and pulses emerged as the fastest-growing segments. Looking ahead, if China reduces its imports from the U.S., Australian agricultural businesses could benefit from increased demand for their products and commodities.

Furthermore, Australia has the opportunity to strengthen its trade partnerships, particularly in regions like Southeast Asia, the Middle East, China, and India, which may be seeking new and reliable trading partners in commodity markets. These bilateral trade partnerships can help protect a vital part of the Australian economy from tariffs and trade volatility, thereby introducing a measure of stability in the complex world of commodities.



The above picture gives us a brief idea of reciprocal tariffs announced by President Trump on 2nd April 2025. For countries without a large deficit, the White House applied a 10% baseline, ensuring tariffs would be applied regardless of any basis or strategy.