

Trade, tariffs and supply chains

Australian industry adjusts to new trade shocks

OCTOBER 2025



About Australian Industry Group

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The Australian Industry Group and partner organisations represent the interests of more than 60,000 businesses employing more than one million staff. Our membership includes businesses of all sizes, from large international companies operating in Australia and iconic Australian brands to family-run SMEs. Our members operate across a wide cross-section of the Australian economy and are linked to the world through national and international supply chains.

Our purpose is to create a better Australia by empowering industry success. We offer our membership strong advocacy and an effective voice at all levels of government underpinned by our respected position of policy leadership and political non-partisanship.

With more than 250 staff and networks of relationships that extend beyond borders we have the resources and the expertise to meet the changing needs of our membership. We provide the practical information, advice and assistance you need to run your business. Our deep experience of industrial relations and workplace law positions us as Australia's leading industrial advocate.

We listen and support our members by leading policy debate and legislative change. We provide solution-driven advice to address business opportunities and risks.

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Contents

INTRODUCTION FROM THE CHIEF EXECUTIVE	4
EXECUTIVE SUMMARY	5
A NEW TRADE SHOCK CONFRONTS AUSTRALIA	6
EMERGING IMPACTS ON AUSTRALIAN INDUSTRY	10
SUPPLY CHAIN DISRUPTIONS RETURN	14
INDUSTRY INVESTS FOR SUPPLY CHAIN RESILIENCE	16
REGULATORY BURDEN WEAKENS OUR RESILIENCE	19
ABOUT THE TRADE AND SUPPLY CHAINS SURVEY 2025	23

Introduction from the Chief Executive

Australia finds itself confronting a new global trade shock and needs to do more to ensure resilience in our supply chains and trade-exposed industries.

The new tariffs announced by the US are arguably the greatest disruption to the global trade system in a century. While Australia has been spared some of the highest tariffs, our economy is far from immune.

Some exporters will find it harder to access key markets, while impacts spreading across global supply chains will have complex impacts on all our trade-engaged industries.

To understand how this trade shock is and will affect Australian industry, we conducted our first Trade, Tariffs and Supply Chains survey in August this year. Many of the findings make for sobering reading.

Half of Australian industrial businesses already report some impact from US trade policies, with another quarter expecting it soon. Impacts include weakened export conditions, greater difficulty sourcing imports, and an environment of uncertainty inhibiting new orders and investment.

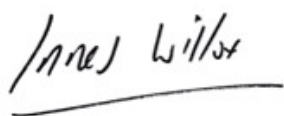
Disruptions to our supply chains have increased due to the US trade policy shock, with an improvement trend since the pandemic, reversing in 2025. Costs pressures have risen, and growth opportunities have been missed, while productivity has suffered as industry contends with yet another wave of disruption.

Fortunately, our industrial businesses are responding with increased investment to improve supply chain resilience. Technology upgrades lead the priority list, with AI solutions appearing for the first time as a major supply chain innovation theme.

But our policy settings are holding these efforts back. A growing set of regulations – for environmental, labour, digital and product standards – are adding red tape to our trading businesses. Via a phenomenon known as ‘grey tape’, as these requirements are passed along between businesses in the supply chain their compliance burden is magnified.

At a time of global trade disruption, we cannot afford to let poor regulation compound the problem. Practical reforms to our regulatory settings will help give industry the flexibility to invest for innovative and resilient supply chains.

Australia cannot control developments in the global trade system, but we can get our regulatory house in order. This report identifies the challenges and maps out a path for a more productive and resilient trading future.



Innes Willox

Chief Executive, Australian Industry Group



Executive summary

Australian industry adjusts to new trade shocks

A new trade shock has hit the global economy. In 2025 the US government announced a suite of new tariffs, barriers and trade rules that are upending the global trade system. Constant policy change from the US has greatly increased uncertainty and risk in many global industries.

Australia is already feeling the effects. Half of industrial businesses report current impacts from the US trade shock, with another quarter expect it in the coming months. Weakened demand, raised compliance burden and increased uncertainty are amongst the effects being felt in industry.

The impacts on Australia will be broader than recognised. US tariffs are most directly affecting our advanced manufacturers, who will lose market access for a major export destination. Indirect impacts are also spreading across supply chains, with trade diversion affecting our imports. Policy uncertainty is suppressing investment and business conditions in many global industries in which Australia plays.

Supply chain disruption has returned. Having only just recovered from the disruptions of the pandemic, the performance of Australian supply chains has declined again in 2025. 47% of industrials are now experiencing disruptions, with the rate set to rise as US tariffs work through supply chains. This is increasing costs, constraining growth and hampering productivity in our industrial businesses.

Industry is investing to improve supply chain resilience. Investment in supply chain uplifts have increased in response to the trade shock, with 44% of manufacturers intending to raise their spending next year. Technology upgrades lead the priority list, with artificial intelligence (AI) solutions appearing for the first time as a major supply chain innovation theme.

But regulatory barriers often stand in the way. Supply chain regulations go beyond trade to include standards, digital, labour and environmental rules. 45% of industrials cite regulatory burden as a major barrier to their supply chain performance. These regulations also propagate across supply chains, increasing compliance while reducing the flexibility of industry to manage risk and capture opportunities.

Regulatory reform is needed. Australia cannot control global shocks but we can get our own house in order. We need to adopt policy settings that support resilient supply chains that can adjust to this new period of trade disruption. Reforms to our regulatory systems to enable investment and flexibility will prove critical in delivering the trade and economic resilience we need for industry to thrive.

A new trade shock confronts Australia

The global trade system has been suddenly upended yet again. Following the election of President Trump, in 2025 the US has embarked on a radical new direction in its domestic trade policies and relations with economic partners. On January 20, the Trump Administration announced an 'America First Trade Policy' which aimed to correct what it saw as unfair and unbalanced trade relationships with key partners, while rebuilding domestic industries seen as critical for US national security and industrial capabilities.

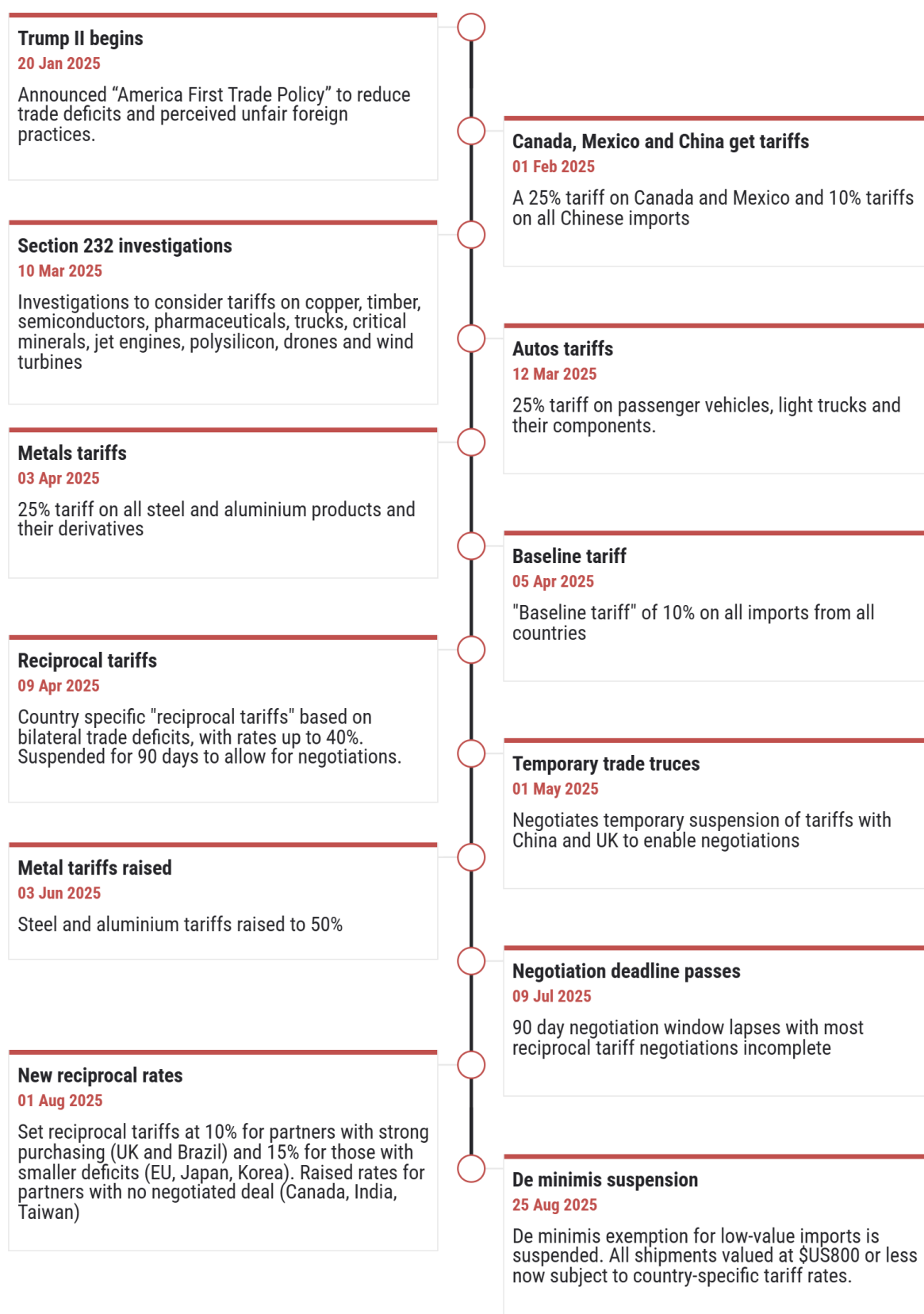
Over the subsequent months, the US government has announced a slew of tariffs and other trade barriers against many products and countries. Figure 1 provides a timeline of these announcements. As of October, the main tariffs which have been announced comprise the following:

1. **"Baseline" tariffs:** A 10% minimum tariff on all imports from all countries, with exemptions for certain critical products.
2. **NAFTA tariffs:** 25% tariffs on imports from Mexico, 35% for Canada.
3. **"Reciprocal" tariffs:** Country-specific tariffs connected to bilateral trade balances, set as high as mid-40s for some partners. Trade partners were invited to negotiate for rate reductions in exchange for other policy concessions.
4. **De-minimis changes:** Suspension of the de-minimis rule which allows small shipments (under USD 800) duty-free entry to the US. Imposes tariffs on e-commerce sales for the first time.
5. **Product-specific tariffs:** Applied to autos and light trucks (25%), steel and aluminium products (initially 25%, later raised to 50%)
6. **'Section 232' investigations:** Further consideration into applying tariffs to pharmaceuticals, copper, timber, semiconductors, heavy trucks, critical minerals, polysilicon, drones and wind turbines.

These new tariffs have mixed aims. Some, such as the baseline and product-specific tariffs, are classic protectionist measures designed to protect select American industries against competition from imports. Other, such as the reciprocal tariffs, instead function as a negotiation wedge which is intended to force other policy concessions from partners in exchange for lower tariff rates.

There remains considerable uncertainty as to where US trade policy settings will ultimately land. Negotiations for reciprocal tariffs were initially slated to be completed by mid-July, but as of October only a handful of major partners have struck deals. The outcome for China's reciprocal tariffs – initially set at a staggering 145%, but temporarily suspended to allow for negotiations – will have a major impact on global trade and supply chains. Additional product-specific tariffs resulting from the Section 232 investigations will impact on many more critical energy and technology sectors.

Figure 1 Timeline of US trade policy announcements in 2025



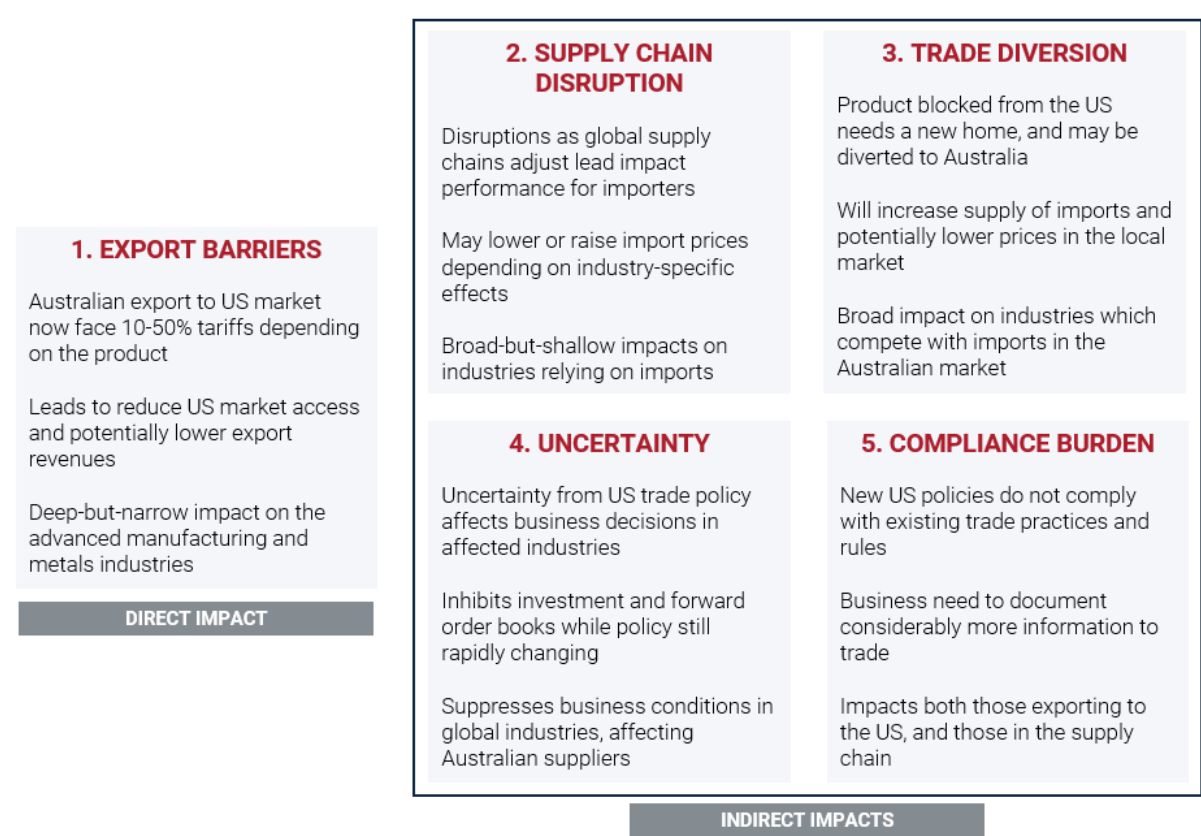
Source: Australian Industry Group Research & Economics

The impact of these new tariffs on global trade will be profound. Modelling indicates the average effective tariff applied to US imports will be 18.6% due to these measures, eight times higher than the 2.4% rate applied before their announcement¹. The US is the world largest goods market, with its \$3.3 trillion of imports in 2024 accounting for around a sixth of the global total². Rapidly raising tariffs on such a large proportion of global trade – with more tariffs likely in coming months – will have far-reaching consequences as their effects move through global supply chains.

It is too soon to determine the precise effects of new US tariffs on either the global or Australian economies. This is because the final rate of many of these tariffs – particularly the reciprocal rates for major economies like China and the EU – remain to be negotiated. Where these land for different products and countries will determine the ultimate economic impact of the US tariffs. However, it is possible to identify the mechanisms via which they are likely to impact Australia and our trade-exposed industries. Two distinct types of impact are evident (Figure 2).

The most prominent are the *direct impacts* – new tariff barriers for exports to the US market. Australia was fortunate to not attract any reciprocal tariff as we are one of the few countries which consistently run a trade deficit with the US. This means Australian exporters will only be directly impacted by either the 10% baseline tariff, or any product-specific tariffs relevant to their exports. By international comparison, Australia has emerged with some of the lowest US tariffs of any major economy.

Figure 2 Potential effects of US tariffs on Australian industry



¹ Yale Budget Lab (2025), *State of U.S. Tariffs: August 7, 2025*, <https://budgetlab.yale.edu/research/state-us-tariffs-august-7-2025>
² Author's calculations from UN Comtrade database.

Australia exports around \$20 billion to the US annually which will now be subject to tariffs of between 10% to 50%. These accounts for 4.0% of our exports and 0.8% of GDP. The direct impacts will be primarily felt by the metals, and advanced manufacturing industries, all of which have significant exports to the US. Most other Australian industries have limited US exports and will be minimally affected. Modelling commissioned by the Commonwealth Treasury suggests these impacts are likely to marginally reduce Australian GDP by 0.1% in 2025 and 0.2% in 2026³.

However, there are also a range of *indirect impacts* which are likely to be felt more broadly across Australian industry. These are caused by disruptions which US tariffs impose on the normal operation of global supply chains. As firms adjust their trade activities around the new US tariffs, this creates complex changes in supply chains which can produce secondary knock-on effects for Australia's trade exposed industries. Four potential indirect impacts can be identified:

- **Supply chain disruptions**, where global supply chains are forced to rapidly adjust to the presence of sudden and very high US trade barriers. These can affect the availability of product, shipping and logistics in complex ways, leading to heightened volatility in volumes and price. Disruptions will have a broad impact on any Australian industries which rely on imported goods.
- **Trade diversion**, where exports blocked from the US market by new tariffs are redirected to other markets. This creates an excess of supply relative to demand, forcing down prices and potentially leading to an influx of imports into third countries. Diversion is likely to affect Australian domestic producers who may face heightened import penetration and price competition.
- **Investment uncertainty**, where the instability of US trade policy settings leads firms to delay decisions until there is greater clarity over final tariff rates. This produces a drop in industrial investment and new orders as firms hold back. Uncertainty suppresses business conditions in affected global industries and will impact Australian firms which supply into these markets.
- **Compliance burden**, where US tariffs impose greater compliance requirements on trade. One example is the metals tariffs, which apply to both steel and aluminium *and* their derivative products. These rules require exporters of otherwise unrelated products to complete detailed customs declarations regarding the steel and aluminium content of their exports. These compliance burdens will apply to Australian businesses exporting to the US, as well as those for whom their customer is required to collect this information for their own exports to the US.

Importantly, it is these indirect impacts which will carry the farthest-reaching effects on the Australian economy. US tariffs will have a deep-but-narrow direct impact on those manufacturing industries which export to the US, alongside a broad-but-shallow indirect impact on all industries which import or export to global supply chains. A business need not be exporting to the US to find themselves affected.

Understanding the impact of the US trade shock on Australia therefore requires unpacking how these complex effects are flowing through trade-exposed industries. Insights generated by our Trade and Supply Chains Survey reveal how these are starting to play out.

³ Treasury (2025), Treasury analysis of recent tariff announcements, https://s3.ap-southeast-2.amazonaws.com/assets.canberra.gov.au/1q_421344bec6.pdf

Emerging impacts on Australian industry

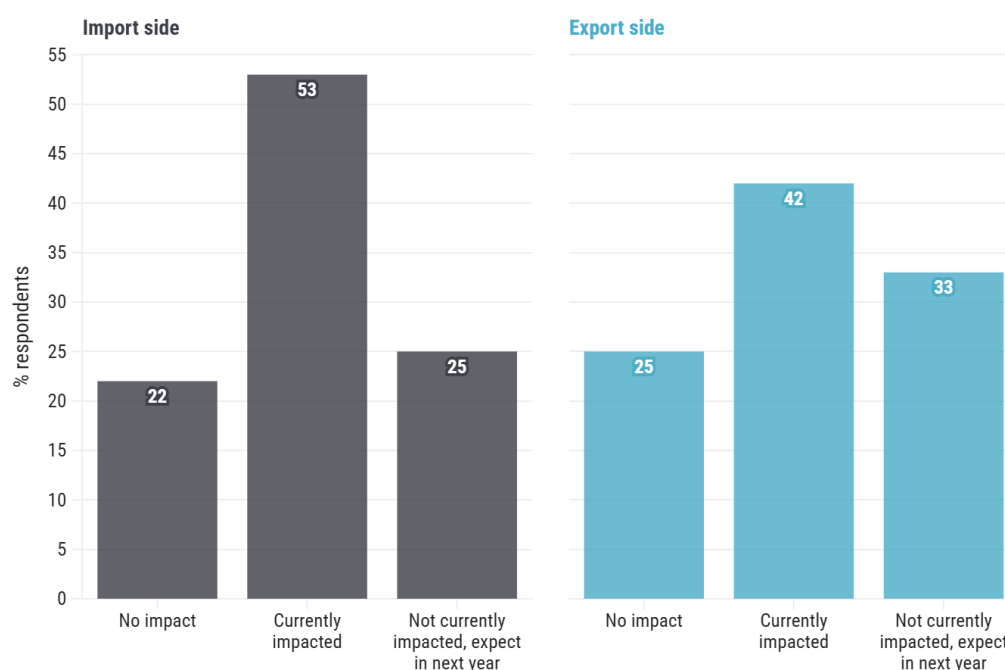
The impact of US tariffs is not a future risk but a current reality for Australian industry. Data collected in August in our Trade and Supply Chains Survey reveals that around half of Australian industrial businesses report having already experienced some impact on their trade activities and supply chains (Figure 3).

42% report current impacts on their export activities, while 53% indicate the import side of their business is affected. Of those yet to be impacted, a further quarter expect it on the import side and a third on the export side over the coming year. Overall, only a quarter of Australian industrials report they have not yet and do not expect future impacts.

The fact that three quarters of industrials are likely to be affected by US tariffs points to the broad impact they will have on our economy. Both importers and exporters alike are reporting broad impacts due to the disruption, diversion and uncertainty that US tariffs are creating in global industries.

Given this survey was administered in August – only four months after the first tariffs announcements, and before the reciprocal tariffs have been fully applied – the impact on Australia industry has also arrived more rapidly than expected. It is possible these figures will rise over time as the remaining tariffs are announced, and those already in effect further work through supply chains.

Figure 3 Reported impacts from US trade policy shock on Australian industrials



Source: Trade & Supply Chain Survey 2025 • Australian Industry Group Research & Economics

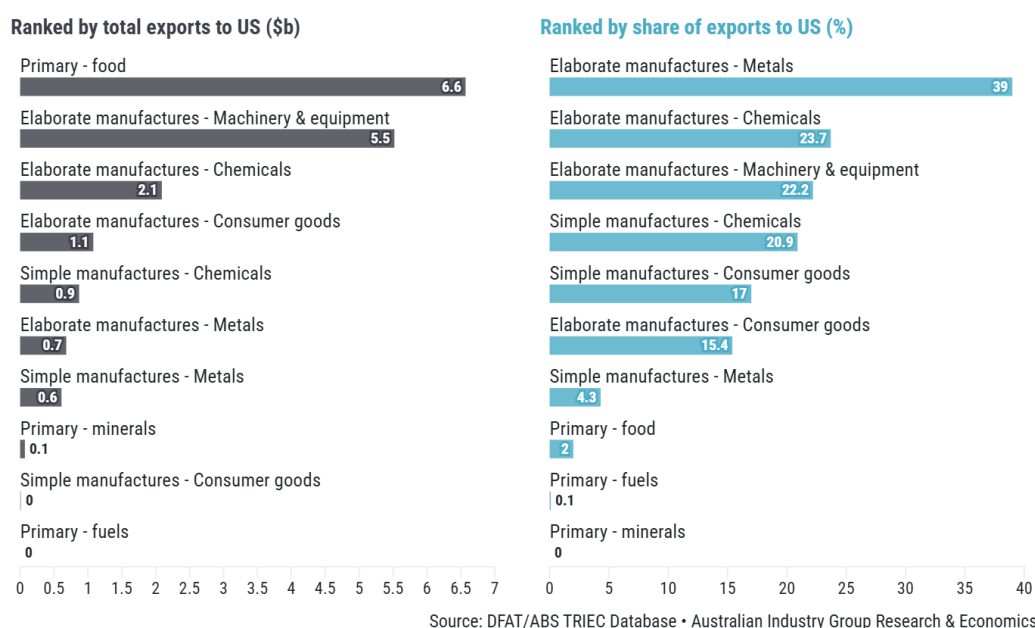
While this data indicates that Australian importers and exporters have been impacted in roughly equal measure, the nature of the risks faced differs markedly. On the export side, the greatest risk is the *direct* impact of US tariffs on industries which are oriented to the US market. Australia's largest export group to the US is food, with \$6.6 billion of exports in 2023-24 (Figure 4). However, when measured in terms

of exposure to the US market, it is advanced manufacturing industries which are likely to feel the biggest impact:

- Metals – 39% of elaborate and 4% of simple exports go to the US market
- Chemicals – 24% of elaborate and 21% of simple exports
- Machinery & equipment – 22% of exports
- Consumer goods – 15% of elaborate and 17% of simple exports

By contrast, Australia's mining, energy and agriculture industries send only a negligible share of their exports to the US. It is primarily advanced manufacturing that will bears the direct impacts, given their strong orientation to high-value markets in the US.

Figure 4 Australian export exposure to US market by product group

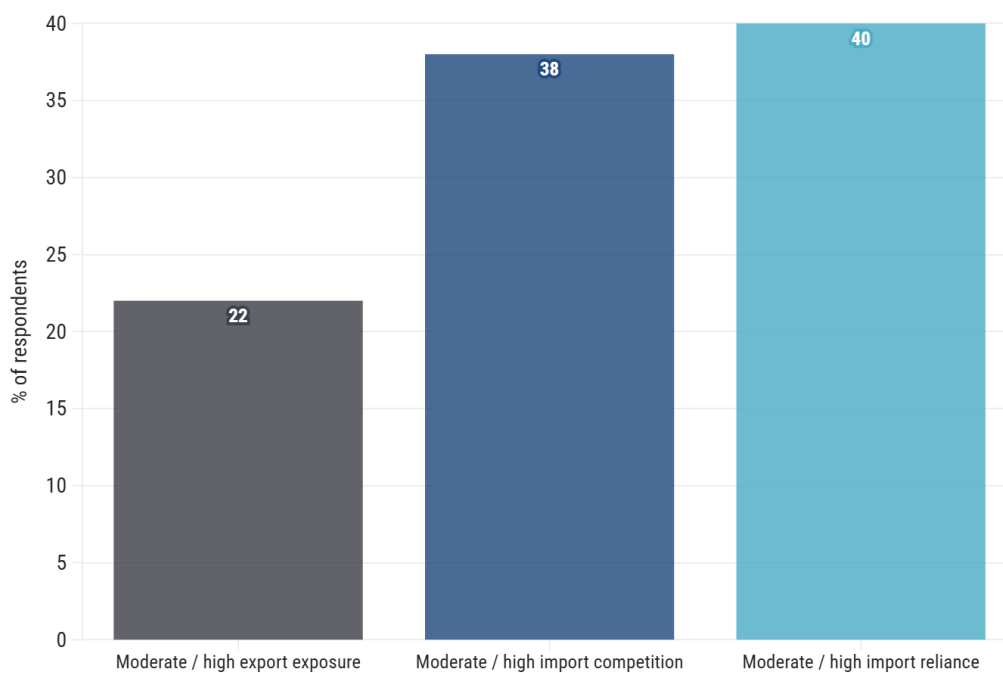


The impact on affected manufacturers will be steep. Metals exports will face a 50% tariff. Chemicals, machinery and other consumer goods will face the 10% baseline tariff, but may also need to pay the 50% metals derivative tariff on the share of their products comprised of metals. Given that most exports were previously tariff-free under the Australia-US Free Trade Agreement, this erects a sudden and steep trade barrier in a major market.

But while the direct impacts of US tariffs on Australia are deep-but-narrow, the indirect impacts are broad-and-shallow. This is because a much larger number of businesses are in some way trade oriented. Amongst surveyed Australian industrials, 22% reported a moderate to high exposure to exports. But the figure rises to 38% for those which are exposed to import competition, and 40% for those which dependent on imported inputs (Figure 5).

Dynamics in Australia's import markets therefore affect around twice as many industrial businesses than exports. While a relatively small number of businesses in advanced manufacturing now face steep US tariffs, close to half of Australian industrials are likely to be indirectly impacted by effects on the import side.

Figure 5 Trade orientation of Australian industrial businesses



Source: Trade & Supply Chain Survey 2025 • Australian Industry Group Research & Economics

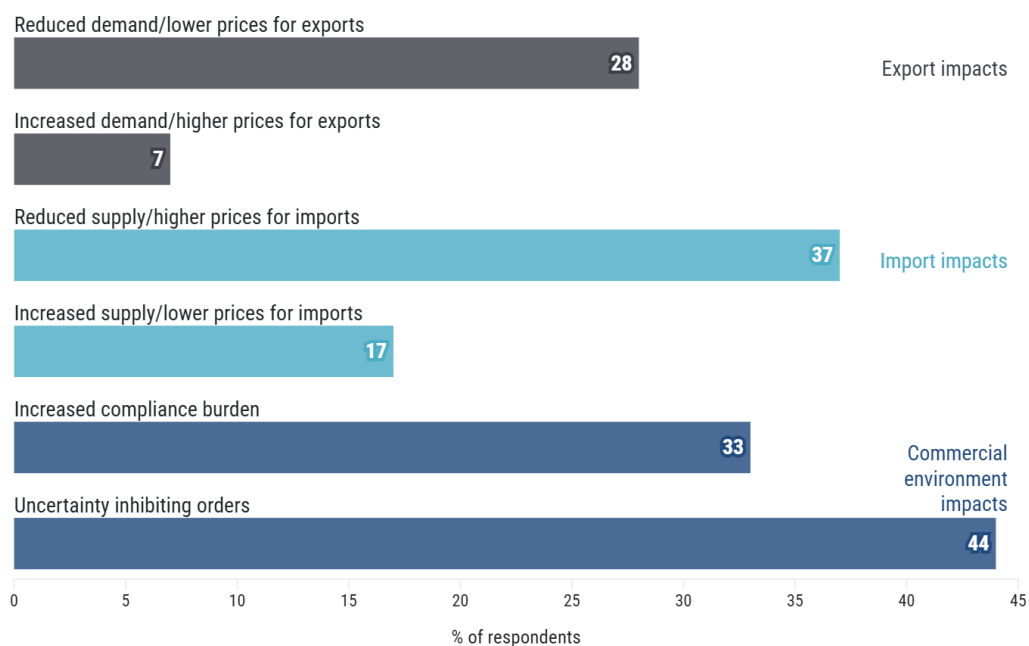
The nature of these impacts is also squarely to the negative, with impacts on the broader commercial environment just as important as that specifically afflicting trade. Amongst the type of reported impacts (Figure 6):

Exports impacts: 28% of impacted exporters report seeing downside outcomes (reduced demand and/or lower prices) for their exports, compared to only 7% reporting upside outcomes. Downside outcomes are also seen among businesses who export to non-US markets, who report weaker sales conditions due to disruptions flowing into other major markets.

Import impacts: 37% report either reduced supply and/or higher prices for imports, while 17% indicate supply has increased. This reflects the complex and mixed nature of supply chain disruptions. For products such as metals where US tariffs have led to excess global capacity, industry is seeing increased supply and depressed prices in the Australian market. For more speciality products like industrial equipment where supply chains have been disrupted, industry is reporting reduced supply and higher prices.

Commercial environment impacts: One third of industrials report that their compliance requirements have increased as a result of trade policy changes. This can include both paperwork required to supply into the US market, as well as broader compliance costs transferred along supply chains. Nearly half (44%) indicate that uncertainty is a factor affecting their business, as investment and orders are held back while business strategy adjusts to new US trade barriers.

Figure 6 Trade impacts reported by Australian industrials



Source: Trade & Supply Chain Survey 2025 • Australian Industry Group Research & Economics

Significantly, it is commercial environment factors, rather than trade-specific issues, which are having the broadest impact across Australian industry. The economic uncertainty introduced by US tariffs has imposed generalised damage on investment conditions in global industry that impacts all businesses, irrespective of their direct exposure. With more tariff announcements expected over coming months, the inhibitory effect of policy uncertainty is likely to persist for some time.

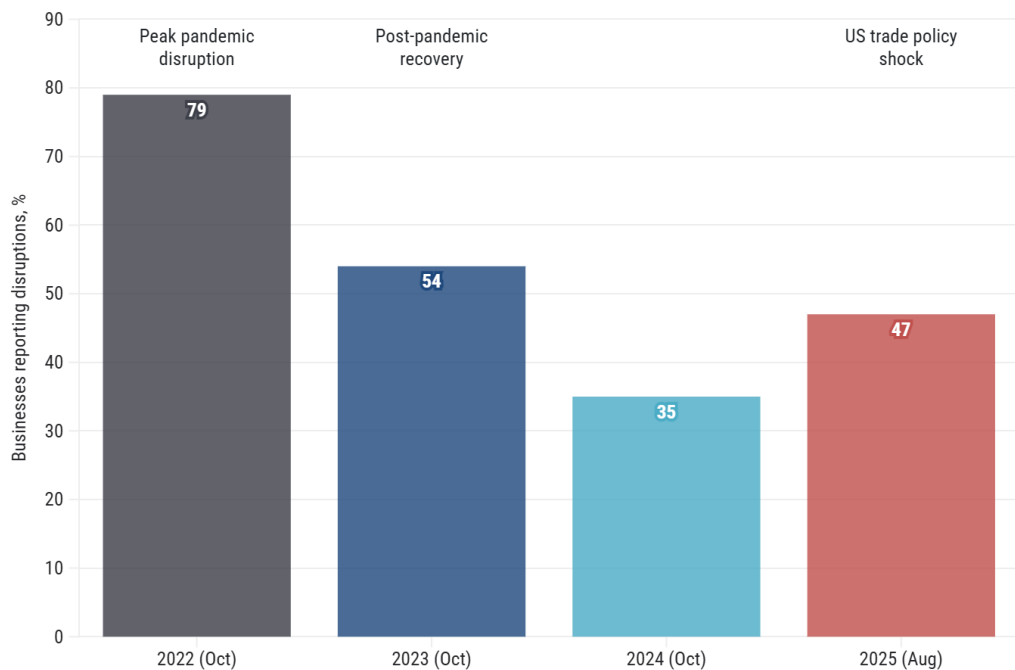
This reveals that the impacts of US tariffs on Australia have been broader and more immediate than is widely recognised. Within only four months, half of industrials are reporting some impact on their business, with exports, imports and the broader commercial environment all affected in complex ways. While manufacturing confronts a large and immediate tariff impact, as the shock passes through global supply chains most industrial businesses are experiencing some kind of negative effects. It is ultimately this question of how supply chains perform and adjust that will carry the most lasting impact for Australian industry.

Supply chain disruptions return

Given the scale and severity of the US trade disruption, it is unsurprising that global supply chain performance has deteriorated over the last six months. Since the pandemic, the Australian Industry Group has periodically surveyed industrials on the performance of their supply chains to identify the extent of disruptions. The data shows that the US trade policy shock has reversed an improvement trend in Australia's supply chain resilience (Figure 7).

During the pandemic, global supply chains were badly interrupted due to border closures, supply shocks and shipping issues. At their peak in late 2022, 79% of Australian industrials reported active supply chain disruptions were impacting their business. As the pandemic-era issues resolved this fell to 35% by late 2024, but in August this year 47% of industrials now report active disruptions. While this remains below the peak rate of the pandemic, it is clear evidence that supply chain performance is deteriorating again.

Figure 7 Supply chain disruptions for Australian industrials



Source: Trade & Supply Chain Survey 2025, Industry Outlook Surveys 2023 to 2025 • Australian Industry Group Research & Economics

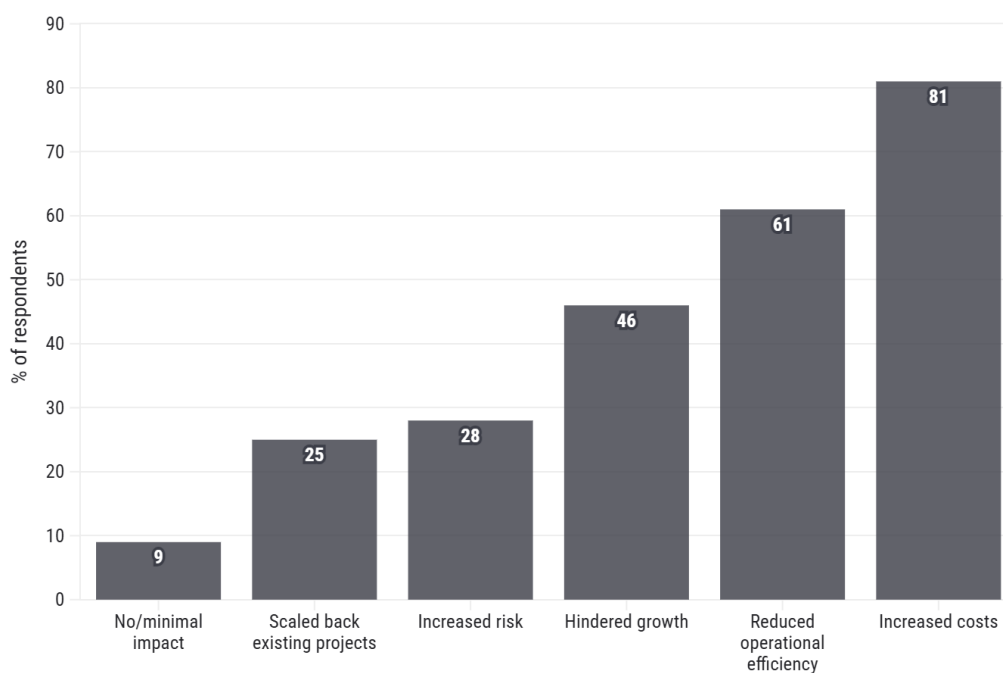
Given that this survey was administered only four months after the initial US tariff announcements, it is very likely this disruption rate will continue to rise. Depending on the industry in question, the impact of tariffs can take between three to twelve months to fully flow through the global supply chain. The impact of already in-force US tariffs will not become fully apparent until early 2026, with any further tariffs still to be announced lagging after that.

The profound supply chain disruptions during the pandemic had a visible impact on the everyday life of Australians. The disruptions caused by US tariffs are likely to be more subtle, but still significant for industry and our economy. Affected industrials report the following impacts (Figure 8):

- **Increased costs.** The leading effect of supply chain disruptions, reported by 81% of businesses. Cost increases can be due to rising prices for products themselves, and/or additional logistical costs associated with delayed shipping and transport. Manufacturers are more likely to report cost increases, reflecting their higher trade exposure relative to other industries.
- **Reduce operational efficiency.** Delays and uncertainty for inwards and outward shipment negatively impact business operations and ultimately productivity. 61% of industrials cite efficiency losses because of supply chain disruptions.
- **Hindered growth or scaled back projects.** Higher costs and lower efficiency places pressure on businesses, which often scale back growth ambitions while attention is directed to managing disruptions. 46% of businesses indicate their growth plans have been hindered due to supply chain disruptions, while 25% report they have had to scale back existing projects.
- **Increased risk.** Supply chain disruptions also increase business risk. This can occur when delivery commitments are put under threat by supply delays, orders are deferred due to uncertainty, and/or pricing arrangements become more volatile. A sizeable minority (28%) report increased risk due to disruptions.

Significantly, only 9% of affected industrials report no or minimal impacts on their business. This points to the material impacts on cost pressures, productivity and growth prospects that supply chain disruptions carry for the Australian industrial ecosystem.

Figure 8 Impacts of supply chain disruptions on Australian industry



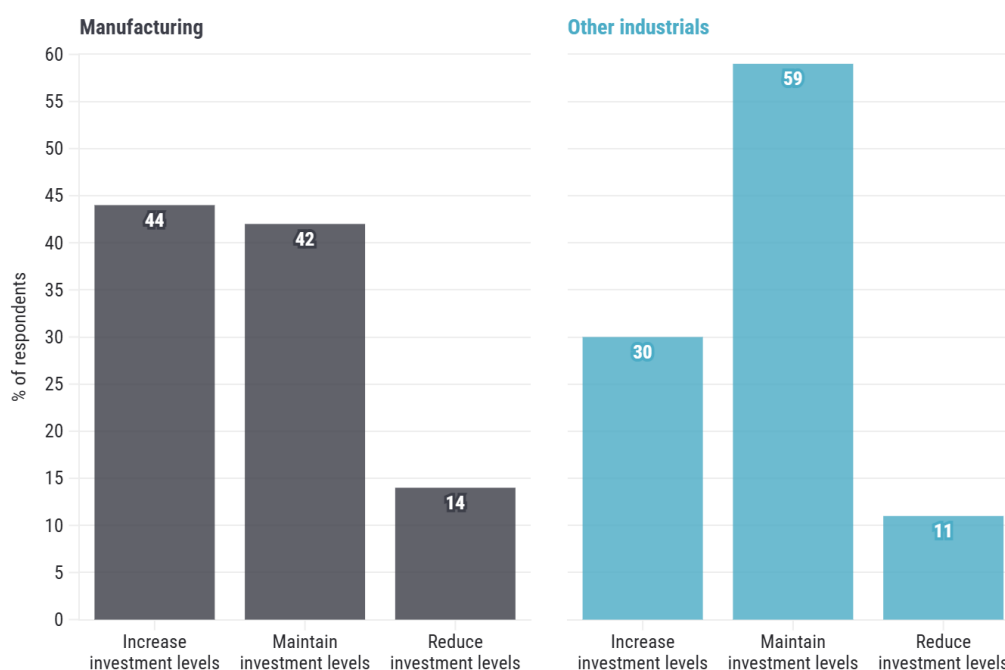
Source: Trade & Supply Chain Survey 2025 • Australian Industry Group Research & Economics

Industry invests for supply chain resilience

With supply chain performance beginning to deteriorate again due to US tariffs, it has re-emerged as a priority for Australian industry. Businesses intend to raise their investments in supply chains, with technology and AI a major focus for their efforts.

First, the good news – Australian industry is responding to disruption with a new wave of investment in supply chains (Figure 9). 44% of manufacturers and 30% of other industrials indicate that they intend to raise their level of supply chain investment in the coming year, while only a small minority plan to decrease it. Higher uplift intentions for manufacturers reflect their greater exposure to the US trade policy shock – with the impact of tariffs falling hardest on manufacturers, they are adopting a more aggressive investment footing.

Figure 9 Supply chain investment intentions of Australian industrials for 2025-26

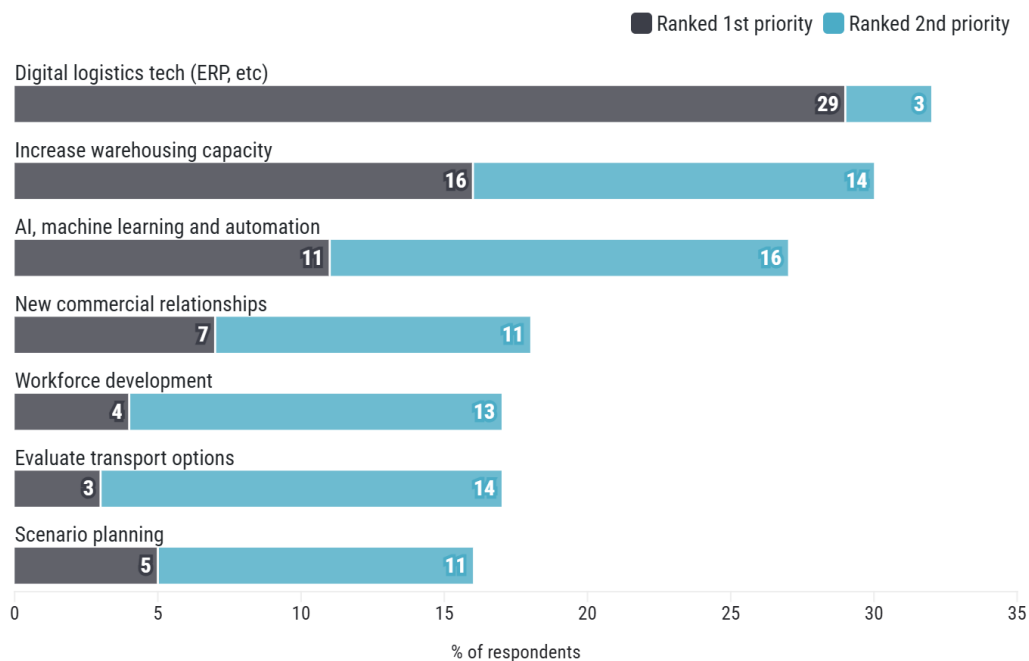


Source: Trade & Supply Chain Survey 2025 • Australian Industry Group Research & Economics

But equally interesting is where industrials intend to make these new investments, with digital technology solutions the leading response (Figure 10). Around a third are planning to deploy new technology for inventory management, which will be complemented by an uplift in warehousing capacity and capability. The rise of AI is also a major theme, with 27% intending to make some form of AI, machine learning or related automation technology part of their investment plans.

There are clear synergies between these technology solutions, with new planning systems, warehouse upgrades and AI analytics each complementing the other. This promises to accelerate the digitisation of Australian supply chains, which not only helps industry respond to disruptions but provides the insights needed to predict and prepare for future shocks. With more trade policy disruption still to come, this will prove critical in fostering supply chain resilience.

Figure 10 Supply chain uplift priorities of Australian industrials



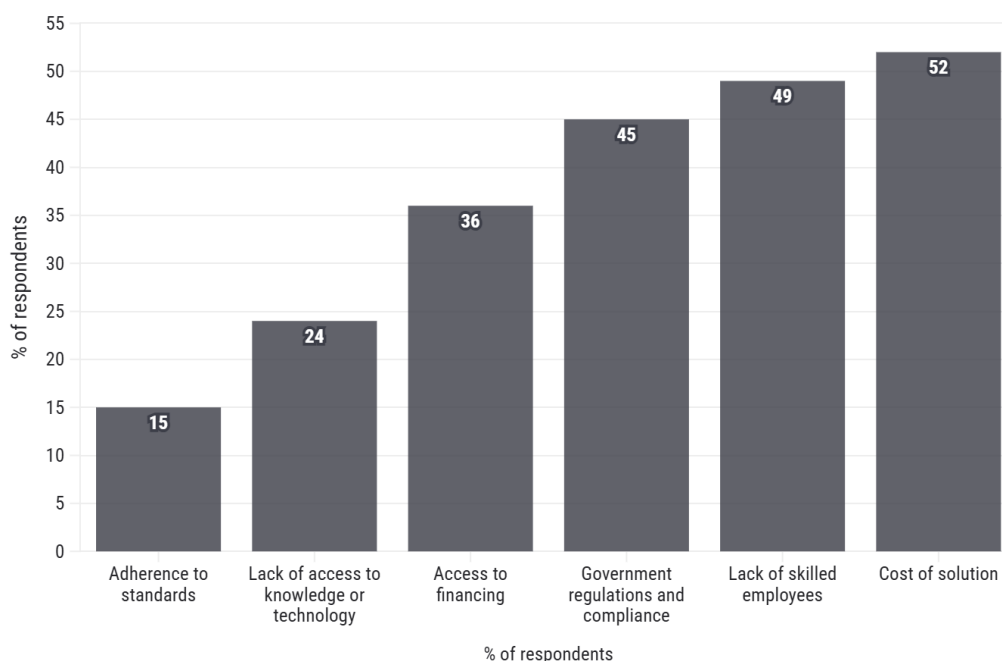
Source: Trade & Supply Chain Survey 2025 • Australian Industry Group Research & Economics

Perhaps surprisingly, non-technology solutions rank lower among uplift priorities. Only around a sixth of industrials intend to change broader business practices, such as: renegotiating supplier relationships, changing their transport arrangements, investing in workforce development or undertaking scenario planning. To be sure, these are very business-specific actions that may not be appropriate for all, for example many may simply not have viable alternate transport or supplier options available. But it points to a potential gap – that we are relying more heavily on technology than business strategy solutions to deliver supply chain resilience.

One of the reasons for this gap is the ease of technology solutions relative to more complex business strategy options (Figure 11). Businesses report relatively high access to technology – only 24% cite knowledge/technology access as a barrier to supply chain innovation. Standards – which often play a key role in shaping which technologies can be implemented and in what manner – are also reported as a barrier by very few businesses. The relative availability and ease of technology solutions makes it a natural go-to when confronted by supply chain disruptions.

Financial factors are the leading inhibitor to supply chain innovation. 52% of industrials report that the cost of a specific solution is the main barrier, while 36% indicate that access to business financing is a concern. To some extent, there can be a vicious cycle at play regarding these financial factors. The US trade shocks have greatly increased uncertainty and costs in global supply chains. This leads Australian industrials to be more cost focused and less capable of undertaking financial risk. Just as supply chains require the most support, businesses are least equipped to make the necessary investments.

Figure 11 Barriers to innovation in Australian industrial supply chains



Source: Trade & Supply Chain Survey 2025 • Australian Industry Group Research & Economics

In addition, two further barriers to supply chain investment have emerged. The first is a shortage of skilled employees, identified by nearly half of respondents as a constraint on both investment and innovation. Skills shortages are very pronounced in Australian industry, with 25% of the manufacturing, 26% of the transport and 53% of the construction workforce currently classified as being in national occupational shortage⁴. These shortages impact supply chain investment by make it harder to recruit and retain specialists required for technology projects, as well as constraining the capability of the existing workforce to make full use of deployed technologies.

A second is government regulations and their resulting compliance requirements. Nearly half (45%) of industrials identified these as a barrier to supply chain uplift – almost as many as citing cost (52%) and skill (49%) factors. Regulation plays a key role in structuring how industrial supply chains operate, by determining how products are traded, what technologies and business practices can be used, and the compliance requirements and costs associated with different options. With nearly half of industrials identifying regulation as a barrier, it is critical to unpack how and why it is stifling our supply chain performance.

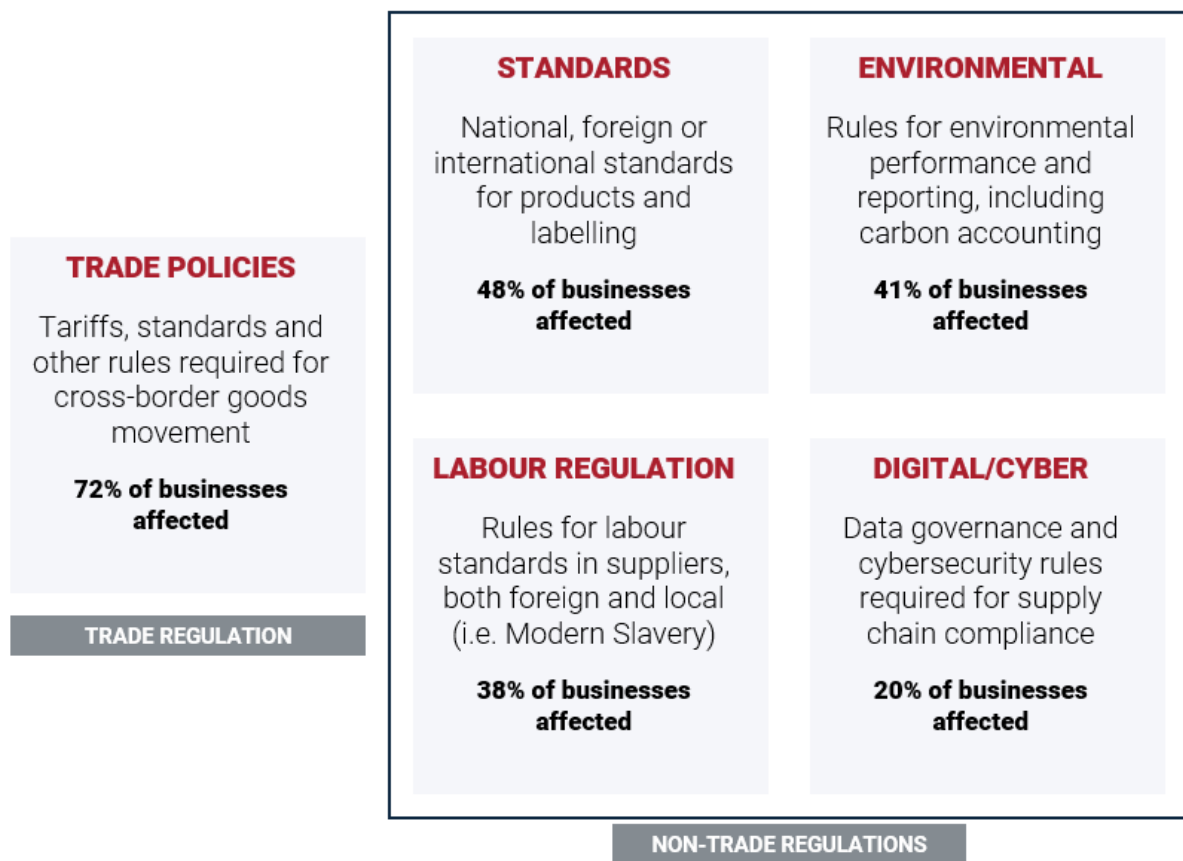
⁴ Australian Industry Group, Economic and Labour Market Outlook 2025-26, <https://www.aigroup.com.au/resourcecentre/research-economics/economic-labour-market-outlook-2025-26/>

Regulatory burden weakens our resilience

Half of industrial businesses cite government regulations as a barrier to supply chain innovation and resilience – so what exactly are the regulations in question? To understand the source and impact of these issues, we surveyed Australian industrials on the scope of regulation affecting their supply chains. These results reveal a crowded regulatory landscape with complex operational effects on industry.

Trade policies are the leading form of regulation, with 72% of industrials reporting that they impact supply chain activities. These comprise tariffs, standards (such as rules of origin) and other requirements to move goods and services across borders. As Australia has very open trade policy settings, the majority originate from foreign governments or our free trade agreements. Some – such as biosecurity provisions and customs procedures – are Australian in origin.

Figure 12 Supply chain regulations impacting Australian industry



But trade policies are only the tip of the regulatory iceberg. Beyond these, there are four additional domains on non-trade regulation that also impact on Australia's supply chains:

- **Standards**, which define commercial requirements for products and labelling. Around half (48%) of industrials report an impact of standards on their activities. Like trade policies, these can either originate locally (via the operation of the Australian Standards system), or from foreign (US/EU) and international (ISO) standards with which businesses are required to comply

- **Environmental regulations** relating to the performance of industrial products and processes, and their associated reporting requirements (41% of industrials). These include carbon/climate related controls and accounting, but extend to all environmental requirements across a product life cycle. Environmental regulations are primarily Australian in origin, but foreign rules can also impacts exporters engaged in certain markets (particularly the EU, which has a well-developed set of environmental standards).
- **Labour regulations** concerning minimum labour standards both in the enterprise and its suppliers. In Australia, the principal source is the *Modern Slavery Act 2018 (Cth)*, which requires large companies to report on and prevent forced labour risks in their local and overseas supply chains. Just over a third (38%) of industrials report labour regulations as an impact on their supply chains.
- **Digital and cybersecurity** rules concerning the governance and practices of handling data. Many originate locally, such as the 'Essential Eight' cybersecurity practices mandated in industries including critical infrastructure and defence. For some they are international, such as compliance with the EU General Data Protection Regulation (GDPR) required for all business with a European market presence. 20% of industrials indicate they face digital and cybersecurity compliance requirements for participation in their supply chains.

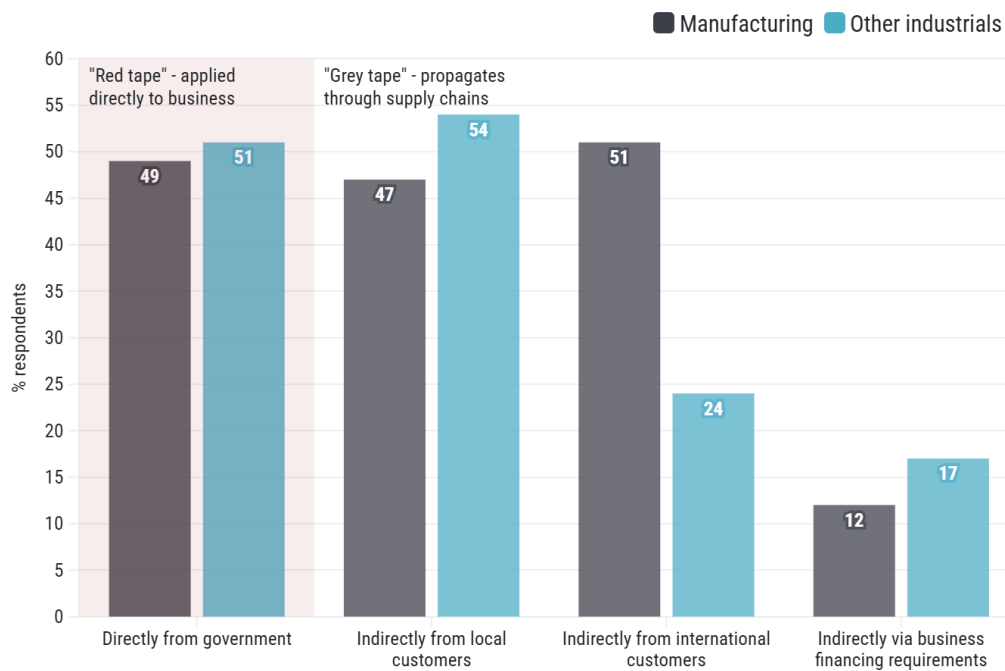
Supply chain regulation extends well beyond the sphere of trade policy. Standards, environmental, labour and digital regulations – both of domestic and international origin – each layer additional regulatory requirements on top of those emanating from the trade system. While requirements from each individual system may be minor, the cumulative compliance burden can become extensive.

Equally significant is the method by which these supply chain regulations are applied. Around half of industrials report that obligations are directly applied by government to the business. Requirements are formally defined in legislation or regulations, and reporting is directly to a government regulator or equivalent agency. This type of regulation is known as 'red tape' and corresponds to the common understanding of how regulatory relationships are structured.

However, there are also indirect regulatory relationships at the business-to-business level, as government regulations get passed along supply chains:

- Around half of industrials report they indirectly receive regulation from their **local customers**, whose own compliance requirements require them to extend them back along the supply chain.
- Half of manufacturers, and a quarter of other industrials, report receiving regulation from their **international customers**. The higher proportion for manufacturers reflects their orientation to more-regulated foreign markets such as the US and EU.
- Around a sixth report they receive regulation via their **business financing**, where banks and other financial institutions require that regulations are met as part of lending arrangements.

Figure 13 Source of industrial supply chain regulations



Source: Trade & Supply Chain Survey 2025 • Australian Industry Group Research & Economics

These types of indirect regulatory relationships are known as “grey tape”. It occurs where regulations are designed in a way that requires that the primary target to pass on requirements to others in the supply chain. An illustrative example are ‘Scope 3’ carbon accounting practices, where a business needs to report on both its own emissions and those of its upstream suppliers and downstream customers. To comply with Scope 3 rules, the regulated business will at minimum need to insert carbon reporting requirements into its contracts, and depending on targets may change its supply chain practices.

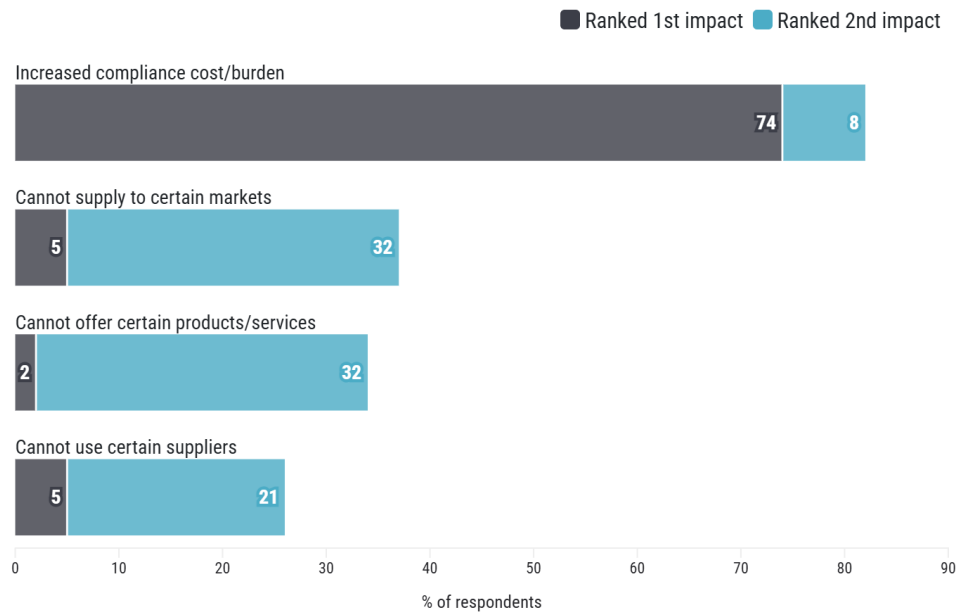
An additional complexity arises because grey tape often crosses national borders. A common example is the extraterritorial application of the EU’s GDPR privacy rules. While not nominally applying in Australia, EU-based businesses typically insert GDPR compliance as a mandatory provision in global purchasing contracts. In some cases it is Australia exporting our regulations, such via *Modern Slavery Act* provisions that require large businesses to take preventive measures regarding forced labour in the foreign supply chains.

New US tariffs are also likely to carry significant grey tape implications for Australian industry. A key example is the derivative products rule, which applies the 50% metals tariffs to non-metals products containing steel or aluminium components. Exporters to the US will be required to document and declare the origin of all metals embodied in their product. This will necessitate impacted businesses pass this compliance burden onto their suppliers, magnifying its effect along the supply chain.

Grey tape matters because it significantly magnifies the overall compliance burden of a supply chain regulation beyond its direct impacts. Many regulations in Australia – including *Modern Slavery*, emissions reduction, cybersecurity and more – are only applied to a target set of large businesses. But where these regulations impose requirements along the supply chain, the regulated large business must pass these onto smaller businesses not formally within the scope of regulation. The overall burden imposed on industry can be many times greater than that countenanced during original regulation design.

Indeed, supply chain regulations have a material impact of the operations and performance of businesses (Figure 13). The top rated are increased costs and burden from regulatory compliance, which 82% of industrials cite as their first- or second-largest impact. These can include costs incurred in monitoring and reporting activities, legal and specialist advice, and/or investment and business process changes needed to achieve compliance. Often, these compliance costs cannot be passed on to customers – particularly for trade-exposed industries operating in global market who are price-takers. The more regulated a supply chain, the higher its costs.

Figure 14 Business impacts of supply chain regulation



Source: Trade & Supply Chain Survey 2025 • Australian Industry Group Research & Economics

But the impacts of regulation also reach into supply chain flexibility and resilience. Around a third of industrials report they cannot supply to certain markets or offer certain products because of prohibitive regulatory barriers. Another quarter indicate they cannot use certain suppliers for the same reason. This shows that regulatory burden is more than just another cost of doing business. It also fundamentally changes who you can do business with and how. This is why half of industrials report regulation as a barrier to supply chain innovation – it limits their flexibility by excluding certain investment, technology and partnership options.

At a time of heightened stress on Australia’s supply chains this is a clear problem. The scope of regulation – which goes beyond trade policy, and includes both red and grey tape burdens – is limiting industry’s ability to adjust to disruptions like the US tariff shock. Regulation is driving cost into businesses, weakening their financial capabilities to invest in supply chain innovation. And it is also reducing flexibility in adopting new practices by limiting the ability to trade in certain products with some partners. Better regulation would help ease these constraints at a time when flexibility is sorely needed.

Australia cannot control developments beyond our borders – whether it's shifts in US trade policy, foreign supply chain regulations, or their broader impact on global markets. But we can get out own house in order to ensure we are as shock-resistant as possible. Industry is already upping its investment in supply chains in response, with digital technology and AI at the forefront. Striking a better balance in the scope and burden of our own regulations would go a long way in supporting industry to make the changes needed for our national economic resilience.

About the Trade and Supply Chains survey 2025

The Australian Industry Group *Tariffs, Trade & Supply Chains* Survey was administered in July and August 2025. Responses were received from 136 private-sector businesses.

Collectively, these businesses employed 138,000 people (approximately 0.3% of the Australian labour force) and had aggregate annual revenue of just over \$31.0 billion in 2024/25 (approximately 0.8% of Australian business revenue).

All Australian states are represented in the survey. Nine industrial sectors are covered: manufacturing, construction, mining services, wholesale trade, transport, utilities and professional services.

	Manufacturing	Other industrials	Total
Respondents	94	42	136
Share respondents	69%	31%	100%
Industry share value add 2023-24	5.4%	34.1%	39.5%



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