AUSTRALIA'S GEOGRAPHIC CHALLENGE—HOW US TARIFFS ARE IMPACTING AUSTRALIA'S TOURISM AND AVIATION INDUSTRY

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Australia Corporate Alert

It has been just over one year since President Donald Trump's announcement of the "reciprocal" tariffs that imposed a 10% baseline tax on imports from all countries on 2 April 2025.[1] As you read this article, the impacts of the US tariffs are continuing to deteriorate the outlook of the aviation industry globally and particularly in Australia, which already faces unique challenges due to its geographic remoteness.

Tariffs cause tensions to rise between the world's major trading countries and often result in the exporting country's retaliation, as we have seen with China's retaliatory tariffs. The tariffs, tensions, fears of retaliation and trade wars do not boost economic growth. In fact, these factors cause many businesses to reduce their planned investments, which impact economies worldwide.[2] Further, the tariffs have caused global trade policy uncertainty to rise, forcing market participants to expect weaker economic outcomes.[3]

Consequently, the risks of a global economic slowdown, and possibly a recession, are growing. It is expected that the tariffs will result in a persistent decline in output growth, which will affect the gross domestic product (GDP) growth in Australia, especially considering that the United States and China, the two countries at the centre of the trade war, are two of Australia's largest trading partners.[4] Additionally, in Australia, the inflationary pressures and higher borrowing costs add to economic uncertainties and further financial pressures on domestic businesses and households.[5]

RECENT UPDATES—AFTERMATH OF THE US SUPREME COURT'S REVIEW

In February 2026, the US Supreme Court reviewed tariffs imposed under the *International Emergency Economic Powers Act* (IEEPA),[6] including the “reciprocal” tariffs imposed on most US imports, including Australia.[7]

Upon its review of *Learning Resources, Inc. v. Trump and Trump v. V.O.S. Selections, Inc.*, the US Supreme Court upheld the lower courts' findings that the IEEPA does not give power to the US president to impose tariffs on imported goods.[8]

(For further information, read the updates by K&L Gates' Policy and Regulatory team in the US in 'Summary: Supreme Court Decision on IEEPA Tariffs' here and 'Unpacking the US Supreme Court's IEEPA Tariff Decision: The Outlook for Future Disputes' here. You can also watch a K&L Gates webinar on the 'Impacts of the Recent US Supreme Court Decision on Trump's Emergency Tariffs' here.)

However, in place of the withdrawn “reciprocal” tariffs, the United States has imposed a global 10% “Temporary Import Surcharge” under section 122 of the *Trade Act of 1974*,[9] which applies to most Australian imports to the United States and is set to expire on 24 July 2026.[10] Currently, aircrafts, jet engines and their parts are exempt

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from the Temporary Import Surcharge as the United States continues its investigation under Section 232 of the *Trade Expansion Act 1962*[11] to assess the effect of imports on US national security.[12]

You may be wondering: what will be the replacement tariff after the expiry of the Temporary Import Surcharge?

On 3 June 2026, the United States proposed a new 12.5% tariff on Australian exports as part of its forced labour investigation under section 301 of the Trade Act of 1974.[13] While the Australian Government has made several submissions challenging the proposed tariffs, the United States has not shown any signs of backing down, nor has it indicated when it would put the proposed tariff in place.[14] This leaves Australia in a place of great uncertainty in relation to the future effects of tariffs on Australian imports.

Additionally, Australia is also subject to "national security" tariffs under section 232 of the *Trade Expansion Act* of 1962.[15] Under these tariffs, materials which are commonly used in the production and repair of aircrafts and aircraft parts such as steel, aluminium, copper products and their derivatives are subject to a 10% to 50% tariff, and certain computer chips and products containing those chips are subject to a 25% tariff.[16] This puts significant financial strain on Australian aviation industry operators and original equipment manufacturers.

EFFECTS ON THE TOURISM AND AVIATION INDUSTRY IN AUSTRALIA

What do the tariffs mean for the tourism and aviation industries in Australia?

The heightened uncertainties and financial market volatility, as a result of the US tariffs, leads to economic consequences such as reduced spending by businesses and households, which has knock-on effects to employment and productivity.[17]

For the Australian aviation industry, this will likely mean lower demand for air travel, as the lowered productivity will lead to increased costs of production and delivery delays in aviation. Flag carriers will be hit hard as customers will choose between cheaper options or not flying at all. Low-cost airlines are expected to experience these impacts to a lesser degree, but they will not have the environmental, social, and governance (ESG) focus nor development pathway for sustainable aviation fuel or net-zero emissions, leading to a poorer outcome for the industry generally. [18]

The status of substantiable growth for the Australian aviation market is adversely impacted by the following:

- Global financial markets reacting to the US tariff announcements on "Liberation Day" and there continues to be ructions to the market caused by the continued tariff negotiations.[19] While some markets in East Asia notch new highs following the trade talks between President Trump and China President Xi Jinping, other economies around the world, such as manufacturing in the European Union and Asia have become weakened and even stagnant as tariffs take a hit on factory order volumes.[20]
- US tariffs jumping to the highest rates since 1909—given that the United States is the world's biggest sovereign economy, this is going to take the "wind out of the sails" of not only the aviation industry but the global tourism industry.[21]
- A weaker GDP growth, which will see a lower demand for air travel.

Hence, economic experts now predict that the global financial future is more unpredictable, over a much wider range of possible outcomes.[22]

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Furthermore, the Australian tourism industry's sustainability is based on a balance of increased international patronage. For our international guests, the global economic instability poses risks to international travel flows and shifts their preferences away from extended stays, impacting Australia's tourism, which consists largely of long-haul tourists.[23] Indeed, international travel has only returned to pre-COVID-19 levels just last year.[24]

It is also important to remember that the tourism industry's success is based on "disposable income." As such, the growing public sentiment regarding a global economic slowdown does not give households the carefree attitude and financial confidence that is necessary in the spending of disposable income. [25] In times of global economic uncertainty, people start replicating "squirrels"—they stop spending and start accumulating enough "nuts" to withstand the economic famine. As such, it is expected that the tourism industry in Australia will also suffer from the US tariffs.

COMPLICATING FACTORS

Beyond the US tariffs, a complicating factor to the outlook of the aviation industry is the advent of the emerging global ESG principles that are driving transformative changes across the industry, particularly in reducing environmental impacts.[26]

For major airlines, ESG is becoming central to operational and strategic decision-making, rather than a mere compliance obligation. Those that integrate ESG into their core operations are better positioning themselves for the future to improve efficiency, maintain access to capital, build resilience and respond to current market pressures.

With growing expectations from customers, investors, and governments, it is clear airlines are facing a critical intersection of challenges: managing tariff-induced cost pressures while simultaneously meeting escalating environmental, social, and governance commitments and navigating the complex legal landscape.

K&L GATES: TRACKING UPDATES FROM THE TRUMP ADMINISTRATION

K&L Gates as an international firm, with offices across four continents, is uniquely positioned to provide advice on matters relating to international aviation and tourism.

Our Policy and Regulatory team in the US continues to assist clients in navigating this rapidly evolving federal policy and regulatory landscape. The K&L Gates' Guiding Through Change initiative monitors new actions from the White House and federal agencies to provide analysis on widespread industry ramifications.

To view more, go to our initiative's landing page for insights on the latest updates.

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FOOTNOTES

[1] The White House, *Fact Sheet: President Donald J. Trump Declares National Emergency to Increase our Competitive Edge, Protect our Sovereignty, and Strengthen our National and Economic Security* (Fact Sheet, 2 April 2025) [1].

[2] See e.g., Steven Greenhouse, "Why Trump tariffs will be 'very bad for America and for the world," *The Guardian*

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(online, 31 January 2025) [4]–[6]; The Treasury, Australian Government, *Economic effects of escalating tariffs* (Report, FOI 2549 No.1, November 2019) 3 (*Tariffs Report*).

[3] Reserve Bank of Australia, *Statement on Monetary Policy – May 2025* (Report, May 2025) [7]–[10].

[4] Davide Furceri et al., "Are tariffs bad for growth? Yes, say five decades of data from 150 countries" (2020) 42(4) *Journal of Policy Modeling* 850, 850; Tariffs Report (n 2) 3.

[5] See generally David Richardson, "The rate rises have cost households and businesses billions of dollars," *The Australia Institute* (online, 8 August 2024).

[6] 50 USC §§ 1701–1706.

[7] Christopher T. Zirpoli, "Supreme Court Rules Against Tariffs Imposed Under the International Emergency Economic Powers Act (IEEPA)," (Congressional Research Service Legal Sidebar, February 2026).

[8] Ibid., 5 [4].

[9] 19 USC § 2132 (1974) (*Trade Act*).

[10] Department of Foreign Affairs and Trade (Cth), *Latest on US Tariffs* (Web Page).

[11] 19 USC § 1862 (1962) (*Trade Expansion Act*).

[12] Australian Trade and Investment Commission (Cth), US tariff changes – latest updates (Web Page) (*US Tariff Changes*) [25]–[27].

[13] *Trade Act* (n 9); *US Tariff Changes* (n 12) [18]-[22].

[14] Department of Foreign Affairs and Trade (Cth), Latest on US Tariffs (Web Page)

[15] *Trade Expansion Act* (n 11).

[16] Australian Trade and Investment Commission (Cth), US Tariff Rates and Exemptions (Web Page, 13 June 2026).

[17] *Tariffs Report* (n 2) 3.

[18] CAPA – Centre for Aviation, "Aviation and the Trump tariffs: clouds are darkening," *Routes 360* (online, 17 April 2025) [3]–[5].

[19] Ibid. [5].

[20] Saqib Iqbal Ahmed and Yuruk Bahceli, "As Trump-Xi trade talks near, investors turn to history as a guide," *Reuters* (New York/London, online, 28 October 2025); Jonathan Cable and Sam Holmes, "Big manufacturing economies struggle as US tariffs hit order books', *Reuters* (London, online, 3 November 2025).

[21] Isabella Blengini, "Strategic Tariffs and Their Impact on Travel and Hospitality," *EHL Insights* (online, 16 May 2025) [17]–[27] (Tariff Impacts on Travel Paper).

[22] See, e.g., *Tariffs Report* (n 2) 1–3; Tariff Impacts on Travel Paper (n 21) [11]–[16]; Aviation and Tariffs Paper (n 18) [6].

[23] Kendra Jeffery, "What the New US Tariffs Mean for Australian Hoteliers," *Preno* (Blog Post, 2025) [9].

[24] Australian Bureau of Statistics (Cth), "Number of Aussies travelling overseas reaches pre-COVID levels" (Media Release, 15 August 2024).

[25] Australian Trade and Investment Commission (Cth), *Australia's visitor economy in 2024* (Annual Benchmark Report, June 2025) 63.

[26] See, e.g., Sydney Airport, "Environmental, Social and Governance – Decarbonisation," *Sydney Airport* (Report); Philippa Sjoquist, Meaghan van der Bergh and Betty Song, "ESG Impact: What you need to know - July 2025," *Westpac IQ* (Report, 31 July 2025).

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