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The impact of tariffs on sourcing decisions

THE ISSUE

President Donald J. Trump's administration has imposed new tariffs on products entering the United States in 2025.¹ The imposition of tariffs may lead companies to reassess sourcing decisions, which may impact workers.

BACKGROUND

The Trump Administration has imposed new tariffs on imports to the United States as of February 2025. During his 2024 presidential campaign, President Trump stated he would impose a new tax of 10 or 20 percent on all imports to the United States regardless of their origin and has threatened tariffs on European Union member countries if they do not increase their imports of U.S. goods.²

Already, President Trump has implemented tariffs on steel and aluminum imports and stated that he will impose further tariffs on all products from Mexico and Canada (Canadian oil and energy exports may be taxed at a lower rate) to pressure those countries to stop the flow of migrants to the United States.³ He has also increased tariffs on imported goods from China.⁴

Although the administration's exact plans are still coming to light, business and government leaders are preparing for new tariffs that will significantly impact global trade and the economy.

Economists and tax experts have raised concerns around the risks of supply chain disruptions and retaliatory tariffs against U.S. goods, which Canada and Mexico are already preparing to levy. Additionally, if factories relocate to the United States, they may face challenges given existing labor shortages and threats of mass deportation against migrant workers.⁵

¹ Stevis-Gridneff, M., Bradsher, K. & Hopkins, S. (2025, February 2). *Trade War Heats Up After Trump Orders Tariffs and Canada Retaliates*. The New York Times. <https://www.nytimes.com/2025/02/02/world/us-tariffs-canada-china-mexico.html>

² Tankersley, J., Gross, J., Alderman, L., & Eddy, M. (2024, December 20). *Trump is threatening Europe with tariffs. is it ready?*. The New York Times. <https://www.nytimes.com/2024/12/20/world/europe/europe-trump-tariffs.html>

³ Stevis-Gridneff, M., Bradsher, K. & Hopkins, S. (2025, February 2). *Trade War Heats Up After Trump Orders Tariffs and Canada Retaliates*. The New York Times. <https://www.nytimes.com/2025/02/02/world/us-tariffs-canada-china-mexico.html>

⁴ Bomey, N., & Basu, Z. (2025, January 24). *Trump 2.0 softens on China*. Axios. <https://www.axios.com/2025/01/24/trump-china-policies-tariffs-elon-musk>

⁵ Pazzanese, C. (2024, December 3). *How China tariffs could backfire on U.S.* Harvard Gazette. <https://news.harvard.edu/gazette/story/2024/12/how-china-tariffs-could-backfire-on-u-s/>

Significant increases in tariffs also may cause harm to workers globally, particularly those employed in manufacturing, if companies start to shift sourcing by significantly curtailing or ceasing sourcing and production. For example, when a company abruptly changes its sourcing profile by changing its orders or exiting factories and farms, workers may lose wages or lose their jobs.

FLA RECOMMENDATIONS

Companies sourcing from countries that are impacted by new tariffs must take measures to protect workers in their supply chains. As they consider the impacts of new tariffs on sourcing or production of goods, companies should prioritize implementing FLA's guidance on responsible sourcing and responsible production to ensure that any changes made in their sourcing and production minimize negative impacts on workers.

Responsible Purchasing Practices

FLA's guidance on responsible purchasing practices includes:

- **Planning and purchasing policies and procedures:** Companies should have policies that align planning and purchasing practices with their commitment to workplace standards.
- **Accountability for planning and purchasing practices:** Management and staff should be aware of the impacts that their decisions might have on workplace standards and workers, and companies should be accountable for decisions that may cause negative impact to workers.
- **Internal dialogue and dialogue with suppliers:** Communication across the organization and with suppliers should occur regularly to avoid negative impacts on workers.
- **Evaluating and incentivizing responsible production:** Companies should ensure there is a formal supplier evaluation system and incentivize suppliers that manufacture responsibly.

Steps companies can take to implement this guidance include:

- Engaging with internal procurement teams first to understand the volume sourced, current suppliers, and number of workers in countries who may face tariffs. Identify the highest risk countries and suppliers who may be impacted by tariffs to understand how much business is at risk.
- Coordinating with suppliers to continue showing support for them and for business continuity and communicate with suppliers around how to continue business operations while respecting workplace standards.
- Exercising caution when placing new orders in high-risk countries until a further cost and tariffs analysis is done.
- Exploring whether orders can be consumed locally or diverted to other markets.
- Enhancing responsible purchasing policies and engaging with FLA staff on planned actions.

Responsible Exit

If a company has no other choice but to cease production in a specific country, it should evaluate the impact of its exit from a supplier, including whether the supplier is at risk of retrenching workers and/or closing. Elements of responsible exit include:

- **Responsible exit/disengagement:** Exiting factories and farms requires formalized procedures to minimize harm. Companies should give adequate notice (at least six months), explore alternatives, and consult other local stakeholders such as unions or civil society organizations to mitigate worker and community impacts.
- **Responsible retrenchment:** Companies must ensure retrenchment is transparent, fair, and aligned with legal and ethical standards. There should be clear policies, timely severance payments, consultation with workers, and reemployment support.
- **Factory closures:** Companies should proactively monitor for financial risks to workers and ensure workers receive legally owed benefits. Companies should establish contingency measures such as severance funds, and support worker reemployment.
- **Implementation:** Companies should review existing detailed checklists for retrenchment, exit, and closure, focusing on policy development and communication around retrenchment, exit, and closure. They should actively monitor suppliers and ensure workers have access to grievance mechanisms and fair compensation during transitions.

New Sourcing Countries

Tariffs are only one consideration in a sourcing decision; evaluating a potential sourcing market should also include other factors to ensure a company can fully implement its responsible sourcing requirements. Any evaluation should include:

- **Risk assessment:** Companies should conduct risk assessments of potential new sourcing destinations, considering factors that directly and indirectly impact workers such as the efficacy of local labor laws, the prevailing wage, risk factors for forced labor and child labor, and health and safety issues.
- **Supply chain mapping:** Companies should ensure the new sourcing market has the requisite transparency needed to complete full upstream or downstream supply chain mapping and that there are no barriers to this mapping.
- **Factory disclosure and sourcing profile disclosure for farms:** Companies should ensure their factory lists are up to date in the FLA factory disclosure database as well as publicly. FLA members must publish on their website (or other public platforms) a list naming all applicable sites that manufacture its products. Similarly, companies participating in the FLA Agriculture Program should inform FLA staff and update their sourcing profile disclosure on their website.

ADDITIONAL RESOURCES

1. [FLA Principles for Responsible Sourcing and Production for Manufacturing](#)
2. [Common Framework on Responsible Purchasing Practices](#) (CFRPP) and [Accountability Framework on Responsible Purchasing Practices](#) (AFRPP)
3. [Responsible factory retrenchment, exit, and closure: Guidance for Companies](#)
4. BetterWork [Responsible Business Conduct](#) case studies
5. [Supply chain mapping, transparency and traceability 1.0: A practical guide for companies and suppliers](#)
6. [FLA's Supply Chain Transparency Requirement](#)

ABOUT THE FAIR LABOR ASSOCIATION

The Fair Labor Association (FLA) promotes human rights at work. We are an international network of companies, universities, and civil society organizations collaborating to ensure that millions of people working at the world's factories and farms are paid fairly and protected from risks to their health, safety, and well-being.

Please contact info@fairlabor.org for more information about this issue brief.