

Corporate Report

REPORT NUMBER 136-2025-Corporate Services-Supply Management

DATE

PREPARED

April 11, 2025

FILE

MEETING DATE

April 28, 2025

SUBJECT

Impacts of U.S. Tariffs on City Procurement

RECOMMENDATION

For information only.

LINK TO STRATEGIC PLAN

This Report aligns with Thunder Bay's strategic direction to plan and deliver cost-effective, financially sustainable services

EXECUTIVE SUMMARY

In early 2025, the United States (U.S.) imposed new tariffs on Canadian goods, triggering a trade dispute between the two nations. These tariffs are expected to increase costs for municipalities, particularly for construction materials and equipment. This economic uncertainty may also challenge local businesses and households. The tariffs have sparked a galvanizing response among Canadians and all levels of government, fostering a sense of solidarity and collective resistance against these measures.

Since the trade dispute began, leaders at all levels of Governments have been outspoken on the issue. Within municipalities, peer groups have been actively sharing information, practical approaches, and Council decisions. A common response has been to adjust procurement practices to manage the pressures arising from U.S. tariffs. Several municipalities are increasing the thresholds for medium-value purchases to align with trade agreements, allowing them to prioritize Canadian suppliers for goods and services below these limits. Municipalities are also participating in advocacy efforts and collaborating with organizations to share data and push for policy changes.

The City's Supply Management By-law 359-2024 procurement thresholds are already aligned with the Canada Free Trade Agreement (CFTA) which allows for invitational

bids where the value of the procurement is below \$133,800 for goods and services, or \$334,400 for construction. Since Administration is able to determine which suppliers are invited to bid, this enables the City to prioritize Canadian suppliers below these thresholds where feasible and appropriate.

Given the current trade environment, the City should adopt a cautious, measured response to the broader trade dispute. Administration will continue to track developments and adjust strategies as needed.

DISCUSSION

Tariffs Landscape

A tariff is a tax that a government places on goods imported from other Countries in order to generate revenue, protect domestic industries and jobs, or negotiate trade terms. Countries may enter into free trade agreements to secure preferential tariff treatment, which reduces or eliminates trade barriers and promotes more competitive access to each other's markets. Canada is a party to several free trade agreements.

The Canada-United States-Mexico (CUSMA) trade agreement, which replaced the North American Free Trade Agreement (NAFTA) in 2020, eliminated most tariffs on goods traded between these countries, although some tariff protections remained for sensitive business sectors.

On February 1, 2025, the United States announced tariffs of 25% on most Canadian goods, with energy products facing a 10% tariff starting February 4. The announcement, and subsequent escalations and retaliations, has since led to a trade dispute between the two countries (see timeline in Background section). Further trade actions by the U.S. against other countries have escalated tensions worldwide, triggering a broader global trade war and increasing economic uncertainty.

These developments have direct implications for municipalities. Rising costs for construction materials and equipment will put pressure on municipal budgets, while economic uncertainty may create challenges for businesses and households.

Trade Agreements, Legislation, and Directives

The City's Supply Management By-law 359-2024 is built on a framework of open, fair, and transparent procurement practices designed to support accountability and value for money. It ensures compliance with applicable legislation and employs best practices in public procurement.

Municipalities are subject to the Canada Free Trade Agreement (CFTA) which governs trade within Canada, and the Comprehensive and Economic Trade Agreement (CETA) which governs trade between Canada and member European states. Municipalities are

not directly bound by the provisions in the CUSMA which is currently at the centre of the ongoing trade dispute.

Both the CFTA and CETA include non-discrimination provisions that prohibit municipalities from favoring suppliers based on geographic location where the value of the procurement exceeds a certain threshold. This means that procurement decisions above these thresholds must be made without preference for local, provincial, or national suppliers, as long as the suppliers meet the established criteria. These rules are intended to promote open competition and ensure that public funds are spent transparently and efficiently, while also aligning municipal practices with broader trade commitments.

On April 4, 2025, in response to U.S. tariffs on Canadian goods and services, the Ontario government released a Procurement Restriction Policy under the authority of the Broader Public Sector Accountability Act, 2010 (BPSAA), which restricts Ontario public sector organizations from entering into new contracts with U.S. businesses unless the U.S. business is the only viable source and the procurement cannot be delayed.

For purposes of this Policy, a U.S. business is means a supplier, manufacturer or distributor of any business structure that:

1. has its headquarters or main office located in the U.S., and
2. has fewer than 250 full-time employees in Canada at the time of the applicable procurement process.

Public procurement is a complex and evolving field that must account for a range of legal requirements, trade obligations, and policy objectives. Any municipal response to U.S. tariffs should consider legal constraints, economic impacts, and the broader consequences for competition and taxpayers.

Municipal Scan

Municipalities are carefully considering how they can manage these pressures and show leadership in the face of ongoing trade challenges.

There has been a concerted effort by administrative peer groups within municipalities to share information and workable approaches. A common municipal response includes amendments to procurement policy/by-laws, specifically increasing the medium value purchasing thresholds to align with trade agreements. For example, under the CFTA: Goods and services – \$133,800, Construction – \$334,400. Under these thresholds, the municipality is able to determine which suppliers are invited to bid, enabling municipalities to employ a “Buy Canada” or “Buy Non- U.S.” approach for purchases below these thresholds.

Municipalities are also participating in advocacy efforts and working with organizations such as the Association of Municipalities of Ontario (AMO) and the Federation of Canadian Municipalities (FCM) collecting and sharing data and information.

City of Thunder Bay Considerations

The City's direct exposure to U.S.-based suppliers is relatively low, with annual direct spending totaling approximately \$750,000. The majority of this spending is related to information technology services and software, areas where many leading providers are headquartered in the U.S. and limited Non-U.S. exist.

However, many goods purchased through Canadian suppliers may include components, software, or materials sourced from the U.S.. Enforcing a strict "Buy Canada or Buy Non-U.S." policy across all tiers of the supply chain is not practical, and in some cases, impossible.

The City's Supply Management By-law 359-2024, approved by City Council last fall, is already aligned with CFTA procurement thresholds. As a result, the City is well-positioned to support a "Buy Canada or Buy Non-U.S." approach within the limits of applicable trade obligations.

For medium-value procurements below the CFTA thresholds (\$133,800 for goods and services, \$334,400 for construction) the City can conduct invitational procurement processes. The City has the discretion to invite only Canadian suppliers, thereby avoiding U.S.-based suppliers where feasible and/or appropriate. This approach is consistent with how many other municipalities are planning to support "Buy Canada or Buy Non-U.S." within the boundaries of trade agreements.

Administration also acknowledges the pressure local suppliers are experiencing due to the uncertainties related to tariff policies. Administration has and will continue to work with potential suppliers to manage tariff-related cost increases effectively.

Administration will continue to monitor the strategies and responses adopted by other municipalities and will bring forward any recommendations as the situation continues to evolve.

While matters concerning trade and tariffs are inherently political and fall outside the purview of Administration, should City Council wish to take a formal position, Administration recommends the following be considered to ensure a measured and appropriate approach:

WITH RESPECT to Report (136-2025 – Corporate Services-Supply Management), the City of Thunder Bay stands in solidarity with federal and provincial governments to advocate against U.S. tariffs;

AND THAT the City of Thunder Bay supports a “Buy Non-U.S.” approach to procurement for the City of Thunder Bay during the trade dispute, where existing legislative framework permits and it is feasible to do so;

AND THAT Administration be directed to continue to monitor the trade environment report back with any additional recommended actions;

AND THAT any necessary by-laws be presented to City Council for ratification.

FINANCIAL IMPLICATION

There are no direct, determinable financial implications associated with this report. However, a 'Buy Canada or Buy Non-U.S.' approach could potentially lead to higher costs if lower-cost U.S. suppliers are excluded from bidding on contracts.

In general, the implementation of tariffs and reciprocal tariffs on goods and services is expected to result in higher costs.

CONCLUSION

Given the complexity of public procurement and the uncertain trade environment, the City of Thunder Bay should take a cautious and measured approach. Administration will continue to monitor the practices of other municipalities and broader policy developments to help inform future procurement decisions.

BACKGROUND

As of the writing of this report, the key tariff-related matters are summarized below:

February 1, 2025 – The U.S. announces tariffs of 25% on most Canadian goods, except for energy products which would incur a 10% tariff, beginning on February 4, 2025.

February 2, 2025 – Canada announces retaliatory tariffs on \$30 billion worth of U.S. goods.

February 3, 2025 – U.S. suspends the implementation of tariffs for 30 days.

February 12, 2025 – U.S. announces 25% tariff on all foreign steel and aluminum imports, beginning March 12, 2025.

March 4, 2025 – U.S. implements the previously announced tariffs on Canadian goods.

March 4, 2025 – Canada implements the previously announced retaliatory tariffs.

March 6, 2025 – U.S. announces exemptions for Canadian goods that are compliant with CUSMA.

March 12, 2025 – U.S. implements 25% tariffs on all steel and aluminum imports (including from Canada).

March 26, 2025 – U.S. announces 25% tariff on foreign-made consumer vehicles and auto components, beginning April 2, 2025. Vehicles build under CUSMA trade rules and imported into the U.S. will only face tariffs on the non- U.S. components.

April 2, 2025 – U.S. announces global reciprocal tariff policy. Canada is excluded from the new tariffs in the short term but previously announced tariffs and exemptions remain in place.

April 3, 2025 – Canada announces it will match the U.S. tariff with a 25% tariff on all non-CUSMA vehicles and non-Canadian auto parts on CUSMA compliant vehicles, but only those that are imported from the U.S..

April 9, 2025 – U.S. announces a 90-day pause on its global reciprocal tariff policy. However, tariffs on Chinese goods were not included in this pause. Tariff threats between the two countries continued to escalate.

REFERENCE MATERIAL ATTACHED

None

REPORT PREPARED BY

Allan Hensel, Manager-Supply Management – Corporate Services

REPORT SIGNED AND VERIFIED BY

Keri Greaves, CPA, Commissioner & City Treasurer – Corporate Services

Date (04/17/2025)