

Committee of the Whole (1) Report

DATE: Tuesday, March 4, 2025

WARD(S): ALL

TITLE: **PROCUREMENT STRATEGIES IN RESPONSE TO AMERICAN TARIFFS**

FROM:

Michael Coroneos, Deputy City Manager, Corporate Services, City Treasurer and Chief Financial Officer

ACTION: DECISION

Purpose

This report is further to Council's direction at Committee of the Whole (Working Session) on February 5, 2025, that Staff report back with a procurement strategy that prioritizes the purchase of Canadian products, goods and services in response to U.S. tariffs.

Report Highlights

- U.S. President Donald J. Trump has threatened various tariffs against Canadian goods that will have a significant impact on Vaughan businesses and businesses across Canada.
- Proposed tariffs of 25% against Canadian goods and 10% against Canadian electricity resources are intended to come into effect on March 4th.
- Proposed tariffs of 25% against steel and aluminum are intended to come into effect on March 12th.
- On February 5th, Mayor Del Duca brought a Member's Resolution, unanimously passed by Council, directing staff to report back with a procurement strategy in response to potential U.S. tariffs.

Recommendations

1. That, in the event of the imposition of tariffs by the U.S. government further to, or similar in substance to, those provided for in Executive Order 14193, that Staff amend such documents, policies and procedures, as required to implement the procurement strategy proposed in this report; and

2. That the Corporate Procurement Policy (15.C.03) be amended to increase the Low Dollar Purchase threshold to \$25,000, to provide for the award and execution authorities for Invitational Procurements, and any further amendments necessary to give effect to the procurement strategy referred to in this report; and
3. That the Deputy City Manager, Corporate Services, City Treasurer and Chief Financial Officer be authorized to release funding sources required to address any additional budget requirements as a result of tariffs; and
4. That, in the event of the imposition of further tariffs imposed by the U.S. government, that the Mayor be authorized to direct staff to take additional responsive measures, such as increasing thresholds for the application of the proposed procurement strategy.

Background

Tariffs are a tax on imported goods, paid for by the person or company who has imported the goods. A government may impose tariffs to generate revenue, protect domestic industries, or deploy them as a diplomatic tool. The Federal Government is currently in negotiations with the U.S. government to address threatened tariffs on Canadian goods exported to the U.S. All levels of government in Canada are preparing plans to address the impacts of U.S. Tariffs on Canadian goods, as well as retaliatory tariffs on American goods.

Canada and the U.S. share one of the most integrated and beneficial trade relationships globally. Annual two-way trade amounts to more than \$1.3 trillion, supporting millions of jobs on both sides of the border. Tariffs will impact all businesses involved in export supply chains, but the most profoundly affected are expected to be the manufacturing (inclusive of agriculture and agri-food, automotive, and building materials), construction, mineral, and energy sectors in Canada. There will also be a spin-off effect on the transportation industries, which carry goods across both borders.

On February 1, 2025, U.S. President Trump signed Executive Order 14193 applying a 25% tariff on products of Canada as defined by the *Federal Register* notice (to be determined by the Secretary of Homeland Security) and 10% tariff on energy or energy resources, as defined in Executive Order 14156. Following discussions between the two countries, the U.S. undertook to delay the tariffs until March 4, 2025. On February 10, 2025, U.S. President Trump signed a Proclamation ending tariff exemptions for steel and aluminum imports effective March 12, 2025, reimposing a 25% tariff on steel and raising the 10% tariff on aluminum to 25%. This Proclamation would apply to all countries, including Canada. News reports suggest the measures taken under this Proclamation may be applied cumulative to those applied further to Executive Order 14193.

Uncertainty remains as to how the U.S. might proceed come March 4th. In response, Council directed Staff to explore all possible options and report back with a procurement strategy that prioritizes the purchase of Canadian goods and services in response to U.S. tariffs.

The imposition of tariffs will undoubtedly have impacts on the City, the full extent of which are unknown. The City has less than two percent (2%) of contracts awarded with suppliers with U.S. mailing addresses as their primary place of business. The City has nine (9) active contracts with an approximate combined contract value of \$2.9M over the next several years. Approximately 98% of the suppliers the City procures from actively are Canadian vendors, who list a Canadian mailing address. Even where the City procures from predominantly Canadian vendors, supply chain issues are often complex and may pass back and forth across our borders.

This report seeks to outline some preliminary procurement strategies the City might consider in response to tariffs. Staff will continue to assess impacts and risks in response to this evolving situation. Should tariffs be imposed, Staff anticipate significant increased costs for new procurements, as well as for existing contracts where vendors may seek contribution or compensation.

Previous Reports/Authority

[Member's Resolution, Committee of the Whole \(Working Session\), February 5, 2025](#)

Analysis and Options

Legal Landscape

Municipal procurement is governed by obligations contained in inter-provincial, national and international trade agreements, legislation, case law and our own policies and procedures. The core principles of public procurement are openness, fairness and transparency. One of the basic tenets of the requirement of openness is non-discrimination based on place of origin or, in other words, providing local preference to goods or services. The principle of non-discrimination is an obligation contained within applicable trade agreements. The Canadian Free Trade Agreement (CFTA), being a trade agreement between the provinces, territories and the federal government, prohibits procuring entities from evaluating tenders based on local content, such that they favour goods or services from a particular province or region. Our obligations under CFTA apply to procurements above \$133,800 for goods and services and \$334,400 for construction. The CFTA permits limited tendering (such as Invitational Procurements), in Procurements below those thresholds that favour Ontario goods or services would not offend the non-discrimination provisions of CFTA.

The Comprehensive Economic and Trade Agreement (CETA), being a trade agreement between Canada and the countries of the European Union, provides that procuring entities must treat foreign suppliers as though they were local or domestic suppliers. CETA establishes thresholds for the value of procurements captured. A procurement must exceed the following values, in order for it to apply: \$353,300 for goods and services and \$8,800,000 for construction. These values are in Canadian dollars for the period of January 1, 2024, to December 31, 2025. Procurements below those thresholds that favour Canadian goods or services would not offend the non-discrimination provisions of CETA.

The Ontario government has not yet passed legislation to bind municipalities to CETA's provisions, however, there is a general expectation at all levels of government that municipalities will comply with CETA obligations. The proposed procurement strategy attempts to strike a balance between prioritizing procurement of Canadian goods and services, while staying on side of obligations under CETA. At the same time, the Ontario Progressive Conservative Party has provided that, if elected, they would:

- Leverage Ontario's **nearly \$30 billion in annual provincial procurement, in addition to the \$200 billion in Ontario's plan to build**, to prioritize Ontario steel, forestry products and other inputs for provincial infrastructure projects, purchase Ontario-made vehicles for government use and help local innovators access more government procurement opportunities. We will also ask and encourage municipalities to do the same in order to protect Ontario jobs and create new opportunities for Ontario and Canadian workers and businesses through their procurements.

In light of the above, should the provincial government enact legislation, regulations or policy, the City may consider adjusting the below strategy to further prioritize Ontario products and services.

Proposed Procurement Strategy

Staff propose the following procurement strategy that best fulfills Council's objective, while staying onside of applicable law. Further, despite anticipated tariffs aimed at Canadian goods, Staff are proposing a strategy that addresses goods and services.

For procurements below \$133,800 (Goods and Services) or \$334,400 (Construction) ("**Low to Mid Value Procurements**"), Staff propose that they leverage opportunities to favour goods made in Canada or services provided by Canadian businesses by increasing the Low Dollar Purchase threshold and increase the use of invitational procurements and collaborative procurement organizations. For procurements valued at or above \$133,800 (Goods and Services) or \$334,400 (Construction) ("**High Value Procurements**"), Staff would also leverage collaborative procurement organizations, as

well as apply evaluation methods to competitive procurements that would favour non-American vendors.

Low to Mid Value Procurements

In order to effect this first pillar of the strategy, Staff recommend that:

- Staff be encouraged to increase the use of invitational bids to support Canadian businesses, where appropriate and in the best interests of the City; and
- The Corporate Procurement Policy (15.C.03) be amended to increase the Low Dollar Purchases thresholds, as provided for below.

Low Dollar Purchases

Under the City's "Corporate Procurement Policy" (15.C.03) a "**Low Dollar Purchase**" is defined as the procurement of goods and/or services up to a maximum value of \$5,000. Staff are recommending that this threshold be increased to \$25,000 for the reasons provided below.

Low Dollar Purchases are intended to facilitate low-cost, low-risk procurements, by permitting direct purchases from vendors, without the formal requirements of competitive procurements. Procedures are put in place to minimize potential repetitive use of Low Dollar Purchases and purchase-splitting. Through the governance framework in the City's administrative policy, "Low Dollar Purchases (LDP)" (15.A.05), Staff continue to monitor data and implement procurement strategies to reduce risk associated with LDP. From 2023 to 2024 there was an approximate decrease of 18% in Low Dollar Purchase Orders issued.

A benchmark analysis of neighbouring municipalities, such as York Region, City of Mississauga, City of Brampton, and City of Markham, show thresholds of up to \$25,000, requiring at least one (1) up to three (3) quotations managed directly by the department. Staff recommend that the Low Dollar Purchase threshold for Vaughan be increased to \$25,000 on a permanent basis. Increasing this threshold will allow Staff to more easily procure goods directly from Canadian suppliers, as they may directly approach suppliers through the limited tendering provisions under CETA. Providing Staff the autonomy to attain quotations through direct engagement of local and Canadian businesses may accommodate smaller, quick-turnaround orders, reducing lead times and fostering stronger relationships and help stimulate the economy. The increased threshold also responds to inflation and the evolving business needs of the City, in line with the thresholds of our neighbouring municipalities. Staff are confident that the protective measures put in place will ensure good governance and address any potential abuse.

Invitational Procurements

An “**Invitational Procurement**” is where a limited number of potential vendors are solicited to bid on a procurement, based on defined requirements. Invitational procurements specify evaluation criteria, a scope of work or description of deliverables, and other requirements. In response, suppliers submit a price quote for goods or services. While it is a competitive process, it is more limited in scope than a public tender. The City currently undertakes Invitational Procurements for the procurement of goods or services valued up to \$100,000. Staff are recommending that this threshold be increased to \$133,800 (Goods and Services) or \$334,400 (Construction) as a temporary measure in response to tariffs.

Invitational Procurements are conducted in a manner that respects the overarching principles of open, fair and transparent competition. To ensure best value for the City, Procurement Services will ensure the following process is followed for Invitational Procurements:

- Staff must reach out to a minimum of three Canadian suppliers for each procurement; and
- Staff award to the lowest compliant bidder.

To address award and execution approval authority, Table 1, Schedule B of the Procurement Policy would be amended to include the following authorities:

Procurement Method	Awarded Contract Cost	Departmental Approval	Award Process Approval/Contract Execution
Invitational Procurements	Up to \$25,000	Manager	Manager, Procurement Services
	\$25,001 - \$133,800	Director	Manager, Procurement Services
	\$133,801 - \$334,400	Deputy City Manager	Director, Procurement Services

Collaborative Procurement Organizations

The City currently encourages the use of Collaborative Procurement Organizations (“CPO”), which provide the following benefits:

- Cost savings;
- Build partnerships with other public sector entities;
- Build efficiencies;

- Reduce non-competitive procurements;
- Reduce duplication of efforts.

The City's administrative policy, "Collaborative Procurement" (15.A.06), which outlines the approach to engaging in Collaborative Procurement opportunities. The City has successfully entered in procurement agreements with several CPOs: Canoe, OECM, Kinetic, and York Purchasing Cooperative. Each of these CPOs have identified non-US based suppliers that the City may use.

Staff recommend that the City respond to U.S. tariffs by increasing the use of Collaborative Procurement Organizations (CPO) and leveraging agreements awarded to non-US based businesses. For procurements below the thresholds, Staff would seek out CPOs with Canadian goods and services. For procurements valued at or above the thresholds, Staff would include non-American goods and services, to ensure compliance with CETA obligations.

High Value Procurements

For procurements valued at or above the thresholds, Staff recommend:

- Increased use of collaborative procurement organizations that provide Canadian and non-American vendors of record that meet our criteria (outlined above);
- For competitive procurements, employ alternative evaluation methodologies, as further detailed below.

Evaluation Method

As an alternative to the use of Collaborative Procurements for high value contracts, Staff recommend that evaluation methods for new procurements be used. For example, evaluation criteria can be established such that Canadian and other suppliers outside of the U.S. may be provided a scoring advantage. Staff are exploring definitions that properly address Council's objective of protecting Canadian jobs.

Protecting Canadian workers and advancing Canadian products is keenly important in the context of the threat of tariffs. Staff are exploring definitions based on three criteria. These reflect a desire to encourage firms that employ Canadian workers and deliver Canadian products and services.

The following criteria may be considered for each contract when we look at definitions of "Canadian supplier" for the purposes of this strategy:

1. Will have the proposed work done by a workforce of which at least eighty percent (80%) is non-US based;
2. Have an office or production facility in Canada; and/or,

3. Help Canadian knowledge workers and talent obtain experience delivering projects. Companies and projects that help Canadian workers will:
 - a. Be led by a Canadian;
 - b. Have at least one of either the project manager position and at least one of the two project executives must be based in Canada;
 - c. Spend a minimum of seventy percent (75%) of the project delivery expenses for services provided by Canadians or Canadian companies

These criteria can be adjusted as the situation shifts. For example, as tariffs increase, Council may increase the work force percentages required.

Scoped Application of the Proposed Procurement Strategy

Staff are undertaking a review of existing and anticipated high-risk procurements, where supply chain limitations may still require procurement from American suppliers, despite tariffs. For example, Information Technology (“IT”) goods or services where there may be sensitivities around IT security, or goods and services required for specialized emergency services (i.e., Vaughan Fire and Rescue Service). For this reason, Staff are recommending that discretion be provided to the City Manager in the application of the proposed procurement strategy.

Potential Future Tariffs

It is difficult to anticipate what, if any, further tariffs may be imposed by the U.S. government. Given the ever-evolving nature of the situation, Staff are recommending that the Mayor direct staff with respect to any future measures to be taken, so as to ensure swift responsiveness in order to best protect the City’s economic interests.

Existing Contracts with non-American vendors

Similar to our experience during the pandemic, the City may anticipate claims for increased costs from non-American vendors experiencing an increase in supply chain costs as a result of tariffs. Again, a case-by-case analysis will have to be conducted, to review the rights of the parties under individual contracts, as well as the substance of the claim made. Staff will continue to explore mitigation strategies to ensure continued operations, however, supply chain limitations and contractual obligations may require the payment of claims for increased costs in certain circumstances for that reason, Staff recommend that, to address such cost escalations, a delegation of authority be provided to Deputy City Manager, Corporate Services, City Treasurer and Chief Financial Officer to approve / release funding sources i.e. contingencies or reserves to address the additional budget requirements.

Financial Impact

Staff anticipate significant financial impacts as a result of tariffs, the full extent of which are unknown.

Operational Impact

Staff continue to explore all operational impacts and will report back at a future Council meeting. However, in the interim, Staff will attempt to mitigate critical impacts in the implementation of the proposed strategy.

Broader Regional Impacts/Considerations

n/a

Conclusion

Should the 25% tariffs against Canadian goods (10% on electricity resources) come into effect, Staff are recommending that Council endorse the adoption of the procurement strategy outlined in this Report. In the interim, Staff are recommending that the City's procurement policy be amended to increase the threshold for Low Dollar Purchases and address Invitational Procurement award and execution authority. Further, Staff are recommending that the City's Deputy City Manager, Corporate Services, City Treasurer and Chief Financial Officer be authorized to release funding sources required to address any additional budget requirements, as a result.

Finally, given the unpredictability of what may come, Staff are also recommending that the Mayor be authorized to direct staff to explore further measures, as necessary, to ensure swift responsiveness in the future.

For more information, please contact: Pooja Nagra, Director of Procurement Services, x. 8306

Attachment

1. Backgrounder on Tariffs, Raphael Costa, Director, Economic Development

Prepared by

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