HALIFAX

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Item No. 14.1

Halifax Regional Council
March 18, 2025
March 25, 2025

TO: Mayor Fillmore and Members of Halifax Regional Council

FROM: Cathie O'Toole, Chief Administrative Officer

DATE: February 18, 2025

SUBJECT: Options for Eliminating or Limiting US Goods and Services in HRM Supply Chain

INFORMATION REPORT

ORIGIN

On Tuesday February 4, 2025 Halifax Regional Council approved a motion by Councillor Cleary and seconded by Councillor Kent:

"Halifax Regional Council direct the Chief Administrative Officer to provide an expedited staff report looking at all legal and practical ways to limit or eliminate procurement from US companies, as well as any goods or services originating in the USA."

EXECUTIVE SUMMARY

This staff report aims to provide a holistic view of the procurement landscape, offering informed paths to prioritizing non-US manufacturing within HRM's operations while considering economic and regulatory contexts.

BACKGROUND

- In January 2025 the US president signed an executive order to apply 25% tariffs on most Canadian goods and a 10% tariff on Canadian steel and aluminum.
- In response, the Government of Canada announced a scheduled implementation of reciprocal tariffs on selected US goods.
- The US later delayed the imposition of the tariffs by 30 days.
- Since the January announcement by the US president, several jurisdictions in Canada including the Province of Nova Scotia announced that they would explore options to eliminate or limit purchases of US goods and services.
- On February 4, 2025, Halifax Regional Council directed the CAO to provide an expedited staff report looking at all legal and practical ways to limit or eliminate procurement from US companies, as well as any goods or services originating in the USA
- In February 2025, the US president announced that the 25% tariff on goods would be extended to include steel and aluminum.

DISCUSSION

Background on North American Supply Chain Integration
The manufacturing landscape in North America exhibits significant integration, highlighted by multinational componentry across products and frequent cross-border flows. Canadian Auto Workers' insights show that auto parts can cross North American borders up to eight times before reaching final assembly. This complexity is integral to understanding HRM's procurement dynamics.

HRM's Manufacturing and Fleet Sources
HRM heavily relies on Canadian-based manufacturers for essential fleets:

- Bus Suppliers: New Flyer (Manitoba) and Nova Bus (Quebec, part of Volvo).
- Fire Apparatus Suppliers: Techno Feu (Quebec) and Fort Garry Fire Trucks (Manitoba).

Despite these Canadian connections, the supply chain's complexity includes inputs from the US, Mexico, the EU, and Asia, complicating the tracking and exclusion of US-origin goods.

HRM’s Direct Contracts with US Suppliers
Although most of HRM’s supply chain resides in Canada, there are specific items that HRM purchases directly from US suppliers. The primary of these are:

- Bus Parts: Mohawk Manufacturing and Supply
- Streetlight Management: Itron Networked Solutions

Other items that are purchased from US-based companies including Microsoft, Hewlitt Packard, Dell and Apple are purchased in Canada from Canadian subsidiaries or local distribution networks.

HRM’s financial and HR solutions are supplied by SAP, a multi-national company based in Germany. SAP’s financial solution is purchased from the Province of Nova Scotia and hosted and managed locally by IBM Canada.

HRM Procurement Policy Context
Current HRM policies, aligned with trade treaties, do not mandate comprehensive tracking of goods’ source origins, except for avoiding procurement from sanctioned nations. This hampers HRM’s ability to confirm US content in its current supply chain.

HRM’s current contracts have never considered US-content in its supply chain. It would be extremely challenging to change these contracts to favour non-US supplies and would in many cases result in price increases beyond HRM’s ability to avoid retendering.

HRM Supply Chain Financial Context
From April 1, 2024, to January 31, 2025, HRM spent approximately $455M. for goods, services, and construction. $339M (74%) of those purchases were from Nova Scotia companies. Additionally, over 99% of the total purchases were from suppliers with a Canadian address. Attachment A contextualizes HRM’s substantial procurement activities, including payments for ongoing operational services.

Implications of Trade Agreements and Provincial Legislation
Administrative Order 2022-012-ADM (the Procurement Policy) requires compliance with the trade agreements by which public entities are regulated, including:

- The Canada Free Trade Agreement (CFTA)
- The Canada/EU Comprehensive Economic and Trade Agreement (CETA)
- The Canada-UK Trade Continuity Agreement

The objective of these agreements is to enforce fairness in procurement, particularly over threshold values (e.g. CETA's at $8,800,000 for construction and $353,300 for goods and services). While the trade agreements do not prohibit Canadian preferences below applicable thresholds, they do restrict national, provincial or local preferences on purchases exceeding these thresholds. Any changes to HRM's procurement practices must comply with these trade agreements.

HRM is also subject to Nova Scotia's Public Procurement Act. As a result, any actions taken by HRM could be influenced by the decisions and/or direction of the Province of Nova Scotia.

Considerations on Eliminating US Goods
Excluding US goods is permissible under HRM policies and agreements, but is potentially detrimental to local economies, impacting costs and supply chain efficiencies. The entrenchment of US products within local and distributor supply chains means drastic exclusion could disrupt market dynamics and potentially harm local suppliers. For this reason, the elimination of US goods from HRM's supply chain, while permissible, may not be practical.

To remove HRM's purchase of goods directly from the US under existing agreements would require HRM to terminate those agreements. Depending on the terms of those agreements, HRM may be liable to pay certain amounts as a result of the termination. While it is rare for these costs to exceed the value of the agreement, there may be penalties or other costs or fees that HRM may incur. These costs would be in addition to the costs and expenses incurred by HRM in reprocuring these goods from Canadian (or other jurisdictions) and, as set forth above, the new goods may be more expensive to HRM.

Evaluating Place of Manufacture via Weighted Scoring
For new or upcoming procurements, HRM will explore introducing a weighted evaluation of Canadian or non-US content in bids. This presents potential operational and economic gains, although it might complicate bid processes due to the volume of items involved. Balancing such considerations may encourage sustainability, local support, and robust supply chains, notwithstanding the usual primary focus on price and social value.

Benefits of Prioritizing Place of Manufacture
- Economic Growth: Supports Canadian and non-US industries, augments employment, and retains economic benefits domestically.
- Environmental Responsibility: Diminishes carbon footprints through shorter supply chains, aligning with sustainability goals.
- Supply Chain Resilience: In the current political environment, may enhance security against supply chain disruptions, ensuring continuity and stability in supply.

Compliance and Implementation

To remain compliant with trade regulations, HRM can use a scored criterion focused on Canadian content for purchases beneath CETA and Canada-UK thresholds or a non-US criterion irrespective of value**.**

FINANCIAL IMPLICATIONS

Implementing a new procurement approach by HRM that limits or eliminates procurement from US companies and any goods or services originating in the USA could have significant financial implications. Such an approach may restrict access to established suppliers, potentially leading to significantly higher costs if alternative vendors from other countries or within Canada offer less competitive pricing or lack the same economies of scale.

RISK CONSIDERATION

Shifting supply chains could result in increased logistical expenses, longer delivery times, and potential disruptions in service continuity. HRM might also face challenges in sourcing specialized products or services that are predominantly available from US providers directly or from US providers through to the Canadian-based affiliates, potentially impacting operational efficiency.

Existing contracts with US-based suppliers may require renegotiation or termination, potentially incurring legal or financial penalties.

Furthermore, local companies that source some components or raw materials from the US could be excluded from procurement competitions, reducing opportunities for local businesses and potentially undermining economic development efforts within the region. This exclusion could limit competition, restrict supplier diversity, and lead to higher procurement costs and budgetary strain for HRM.

COMMUNITY ENGAGEMENT

No community engagement was required.

LEGISLATIVE AUTHORITY

Administrative Order 2022-012-ADM, The Procurement Administrative Order,

Section 2 The purposes of this Administrative Order are to:
(a) provide for the procurement of Goods, Services and Construction by the Municipality in a fair, open, consistent and transparent manner resulting in Best Value;
(b) promote procurement processes and decisions that are consistent with the strategic goals and objectives of the Municipality;
(c) provide for sustainable procurement by integrating environmental, economic and social considerations in the procurement process;
(d) maintain ethical business practices;
(e) respect regional, national and international trade agreement obligations and other applicable legislation; and
(f) encourage competitive bidding for the supply of Goods, Services and Construction. .

Section 9 The CAO may authorize additional procedures and protocols not inconsistent with this Administrative Order and may delegate their authority under this Administrative Order to employees.

ATTACHMENTS

Appendix A - HRM Supply Chain Profile
Appendix B - Statements from Premier Tim Houston, Mayor Andy Fillmore, Halifax Partnership

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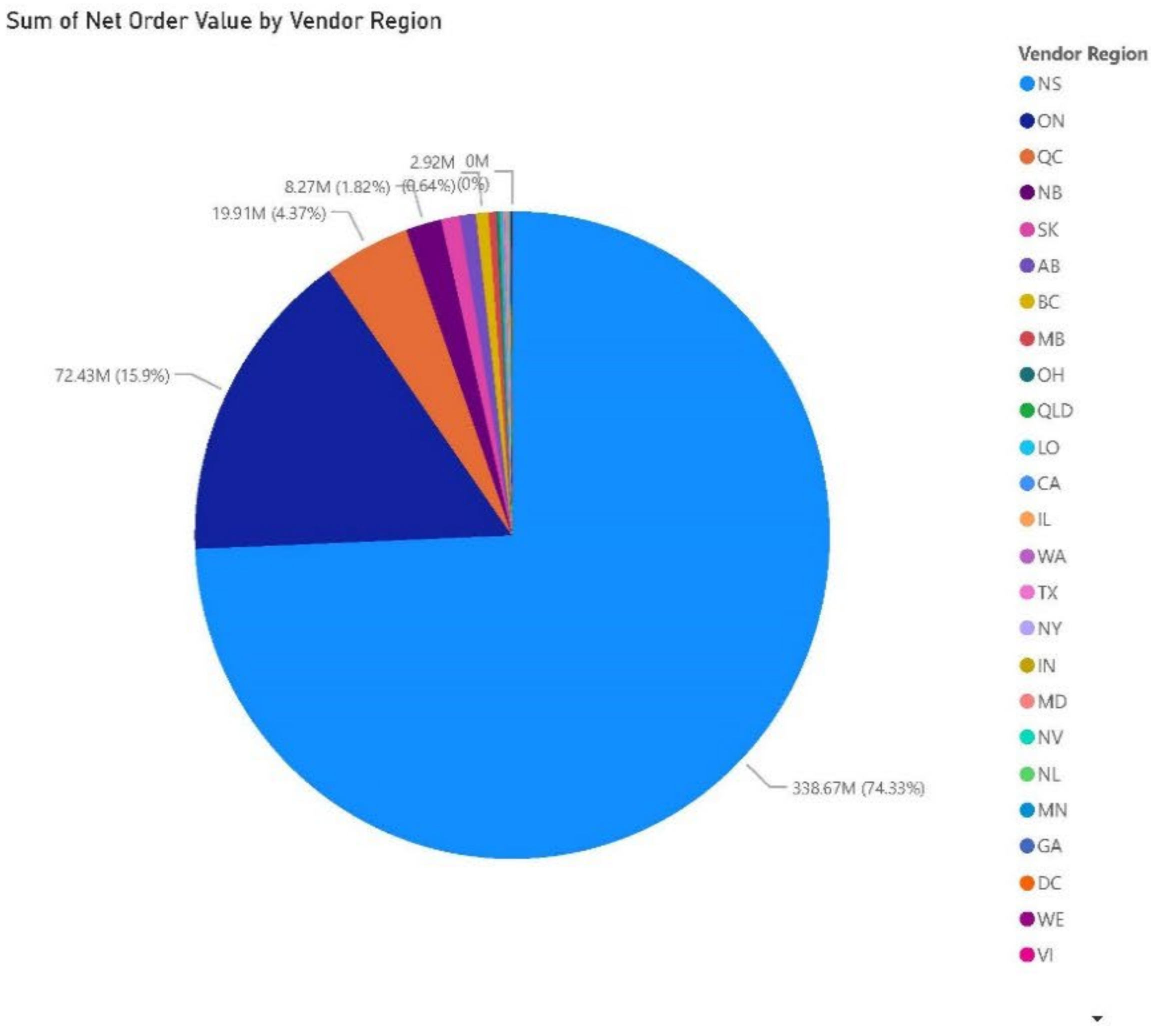
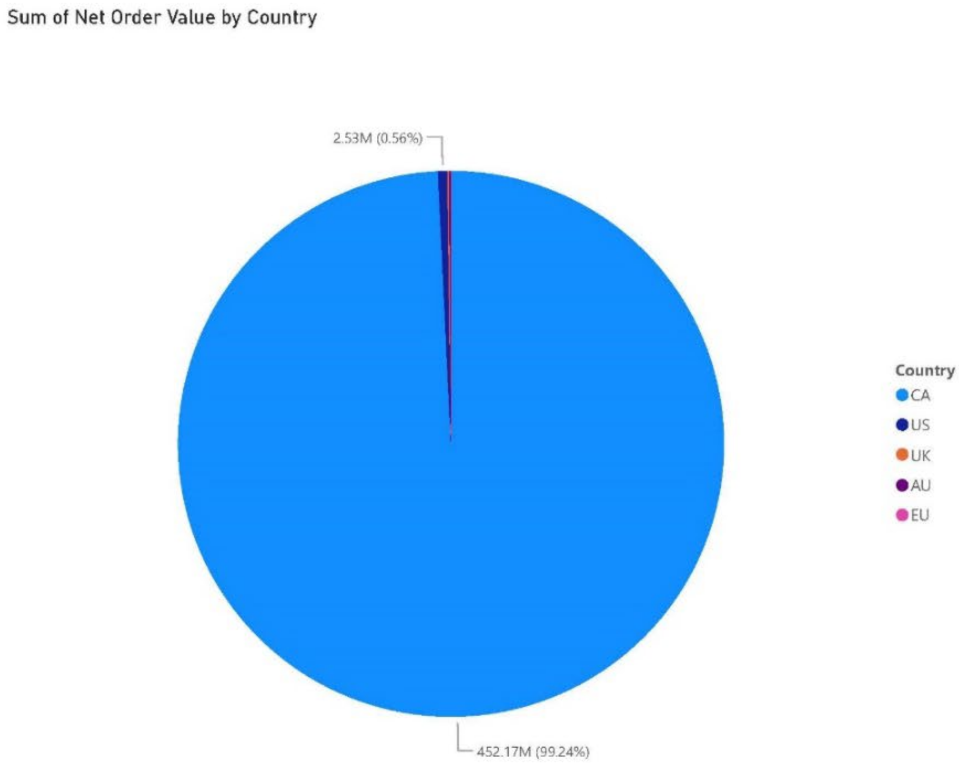
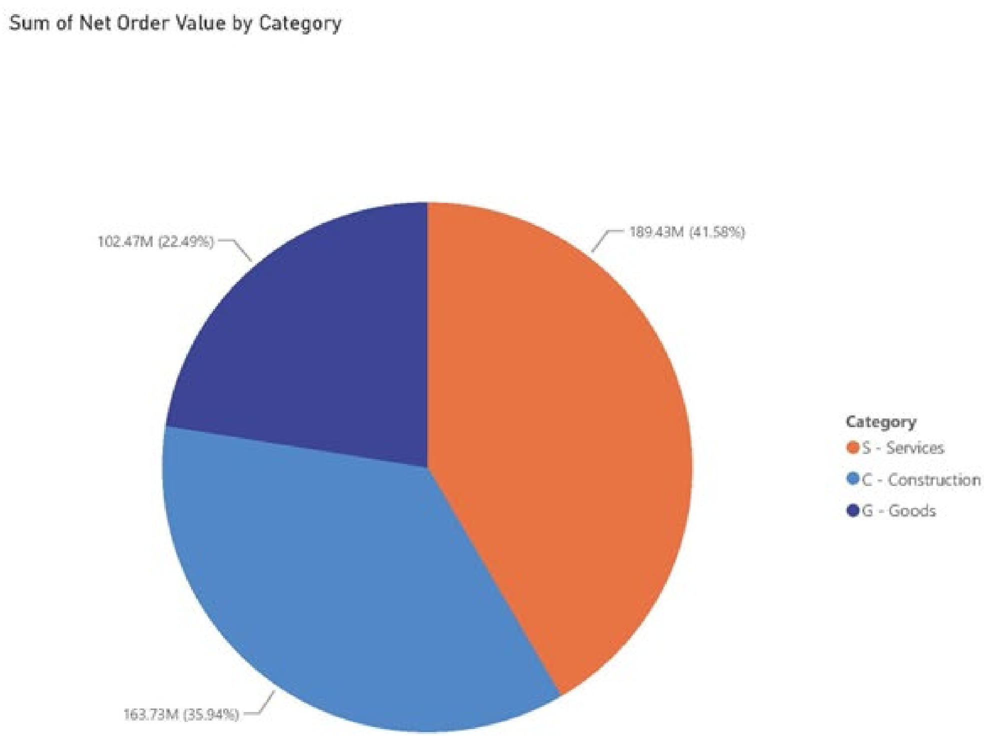

Sum of Net Order Value by Vendor Region
2.92M
0M
8.27M (1.82%)
(0.64%)
(0%)
19.91M (4.37%)
72.43M (15.9%)
338.67M (74.33%)
Vendor Region
NS
ON
QC
NB
SK
AB
BC
MB
OH
QLD
LO
CA
IL
WA
TX
NY
IN
MD
NV
NL
MN
GA
DC
WE
VI

APPENDIX A



Sum of Net Order Value by Country
2.53M (0.56%)
452.17M (99.24%)
Country
CA
US
UK
AU
EU



Sum of Net Order Value by Category
102.47M (22.49%)
189.43M (41.58%)
163.73M (35.94%)
Category
S - Services
C - Construction
G - Goods

Attachment B – Official Statements from Premier Tim Houston, Mayor Andy Fillmore and the Halifax Partnership

1. **Province of Nova Scotia**

PREMIER'S OFFICE--Statement on U.S. Tariffs

NOTE: The following is a statement from Premier Tim Houston.

Donald Trump is a short-sighted man who wields his power just for the sake of it, not having any consideration for the destructive impact of his decisions on both Canadians and Americans.

It is impossible to properly describe the uncertainty and chaos that President Trump's threat of tariffs and now actually imposing tariffs has caused for Canadians.

And now, as President Trump proceeds with his illegal 25 per cent tariffs, Nova Scotia will respond.

We will immediately limit access to provincial procurement for American businesses. They can no longer bid on provincial business. We are also actively seeking options to cancel existing contracts and reject bids outright until President Trump removes his unlawful tariffs.

We will double the cost of tolls at the Cobequid Pass for commercial vehicles from the United States, effective immediately.

And we will direct the Nova Scotia Liquor Corp. to once again remove all alcohol from the United States from their shelves, effective today. We know this was an effective response the first time and hurt American producers who rely on Canadian markets.

We will also take any step we can to support Nova Scotians through this incredibly difficult time. As part of Budget 2025-26, we added a contingency fund to respond to U.S. tariffs. It is too early to determine exactly what specific funding is necessary, but we will communicate to Nova Scotians as we better understand the economic impacts and the federal government's plans to support Nova Scotians.

We introduced legislation designed to break down barriers to interprovincial trade. We must be open for business in Canada. We hope all provinces and territories immediately endorse and pass corresponding legislation.

We are also working on a trade action plan to help businesses engage in global trade, increase their global competitiveness and drive investment growth and have issued a call to action to develop our valuable natural resources.

I can tell you that we worked hard to avoid a repeat of Trump's tax. We know tariffs are bad for people and businesses on both sides of the border.

Unfortunately, some people need to touch the hot stove to learn, and while we cannot control or predict their behaviour, we can control how we respond.

I want to thank Nova Scotians who have already responded with your wallet. You're choosing to be Nova Scotia loyal and support local and Canadian businesses. You're choosing to travel in our beautiful province and country rather than south of the border. You're cheering loudly and proudly for our Canadian teams and athletes.

These choices and actions are significant. It is important that we stand together, united and strong.

That's why we will continue to work with the federal government as it designs and implements counter-tariffs.

We are a government of action, and I continue to stand with you. My focus is entirely on protecting the interest of hard-working Nova Scotians and their families – in these times of uncertainty, that is one constant you can continue to count on.

2. Halifax Regional Municipality

Statement from the Mayor of Halifax on U.S. Tariffs

March 4, 2025

As a municipality, we are immediately reviewing all procurement policies to align with the Province of Nova Scotia's response. We remain in active dialogue with the Premier's office to ensure continued alignment.

Halifax will be canceling memberships in U.S.-based organizations and suspending all employee travel to the United States for conferences and training. We are also reviewing existing agreements and identifying potential off-ramps where possible.

City staff are preparing a report for Council outlining the implications of these tariffs and potential further municipal actions. This report will be presented as early as the next Council meeting on March 18.

Haligonians are already making their voices heard through their purchasing choices, travel decisions, and support for local businesses. I encourage all residents to continue standing together in this difficult time by prioritizing local and Canadian products and services.

Andy Fillmore

Mayor of Halifax

3. <u>Halifax Partnership</u>

Halifax Partnership: Navigating U.S. Tariff Impacts. Together.

After a 30-day pause, the United States administration has decided to proceed with imposing 25 percent tariffs on Canadian exports and 10 percent tariffs on Canadian energy. In response, Canada will impose 25 percent tariffs against $155 billion of American goods – starting with tariffs on $30 billion worth of goods immediately and tariffs on the remaining $125 billion on American products in 21 days' time. The Province of Nova Scotia has also announced a number of immediate countermeasures, including changes to provincial procurement processes and the removal of all American alcohol products from the shelves of Nova Scotia Liquor Corporation stores.

We're staying focused on the core of what we do at Halifax Partnership – helping to grow our local economy in ways that benefit all residents and businesses. We do this by working together and fostering collaboration, and it has been heartening to see Canadians and Nova Scotians coming together and resolved to meet this challenge head on.

We're here to help

Halifax Partnership is here to help your business navigate the Canada-U.S. trade dispute and mitigate economic impacts. Our SmartBusiness team can connect you to partners and resources for trade market development, supply chain diversification, and generally increasing the competitiveness of your business. We're already receiving requests from companies outside of Nova Scotia who want to diversify their supply chains and source materials, products, and services. We're thrilled to connect them directly to businesses here in Halifax, while collaborating with our network to open new doors. Reach out to our team and share your tariff impacts with us.

As we look ahead, we are faced with tremendous uncertainty as we size up the economic impacts of tariffs between Canada and the US, as well as unpredictable international relations and shifting trade dynamics. We remain forward-thinking and deliberately focused on Halifax's economic development and, now more than ever, solving Nova Scotia's productivity crisis is key to strengthening our economy.

What happens next

This tariff situation is fast-moving, and we can expect changes that will affect us all. We'll be actively monitoring and will continue to work closely with governments, partners, and businesses to share information on how any developments will affect our economy and our community, and the ways we can respond effectively, together.