ISSUE PAPER: THE IMPACT OF TARIFFS ON INFRASTRUCTURE AND PUBLIC-PRIVATE PARTNERSHIPS

Issue: The United States has vowed to levy a 25 per cent tariff on Canadian goods (10 per cent on oil) entering the U.S., with the Canadian government responding with a potential 25 per cent tariff on $30 billion in goods imported from the United States. **As of late Monday, February 3, 2025 there is currently a 30-day reprieve on either action taking place.**

In this fast-changing, high-stakes atmosphere, The Council is endeavoring to gain a full understanding of the potential impacts on Canada's current and future infrastructure projects across the board, particularly public-private partnerships (P3s).

Recognizing the proposed tariffs will disrupt supply chains, drive up costs for materials and create uncertainty in the infrastructure market, The Council is using its convening powers, and drawing on the strength of its public and private sector members, to find potential mitigations strategies and solutions to support the continued delivery of infrastructure and services at the best price and best quality for all Canadians.

Considerations:

1. Price Increases in the Supply Chain:

- The imposition of tariffs will increase costs across the supply chain, particularly for mechanical and electrical components imported from the U.S. but often manufactured using Canadian parts. This cascading effect would disproportionately affect infrastructure projects that rely on these components.
- Canada's retaliatory tariffs on goods imported from the U.S. will likely further exacerbate cost pressures on infrastructure projects dependent on cross-border trade. However, impacts may differ

across regions where the ability to pivot to domestic products or from other countries may be available.

2. **Economic Ripple Effects:**
   - Higher input costs could deter investment in infrastructure, reduce the competitiveness of Canadian firms and delay the delivery of critical infrastructure projects.
   - Supply chain disruptions could lead to delays in procurement, manufacturing, and delivery of key components, further straining project timelines and budgets.
   - The threat of tariffs has already impacted the value of the Canadian dollar. This is expected to lead to increased costs for imported materials, equipment and technology, as many are priced in stronger foreign currencies. This can drive up project budgets, strain fixed-price contracts and deter foreign investment.

Impacts on Infrastructure Projects:

1. **Current Fixed-Price Contracts:**
   - Existing fixed-price Project Agreements will face challenges in absorbing sudden cost increases. Developers and contractors may seek relief or mitigation through Change in Law clauses or similar provisions in their contracts to offset the financial burden imposed by tariffs.
   - Contract renegotiations or legal disputes could delay project timelines and increase administrative burdens for all stakeholders involved.

2. **Projects in the RFQ/RFP Process:**
   - Projects currently in the procurement phase will encounter challenges as bidders struggle to account for the unknowns related to the proposed tariffs. This uncertainty could lead to:
     - Higher bid prices as a buffer against tariff impacts.
     - Reduced participation from bidders unwilling to take on unquantifiable risks, thereby limiting competition and innovation in the bidding process.

3. **Future Projects:**
   - Long-term infrastructure planning will be affected by anticipated cost escalations, forcing governments and private sector partners to re-evaluate the economic viability and risk-sharing frameworks of future projects.

- Increased costs and risk rebalancing could undermine the Value-for-Money (VfM) principle, which is a cornerstone of P3 projects. This may result in:
  - Scaling back project scopes to manage budgets resulting in the reduction of public services.
  - Shifting greater financial risk to public entities, weakening the collaborative foundation of P3s.
  - Progressive approaches may support P3s going forward as discussions can be had around the risk related to tariffs.

Conclusion: The tariffs present a significant challenge to Canada's infrastructure sector and its established P3 model. The cascading effects of supply chain disruptions, cost escalations and market uncertainty demand proactive strategies from both public and private stakeholders to mitigate potential impacts.

This includes revisiting contractual frameworks, advocating for policy clarity, preparing mitigation scenarios, such as sourcing the availability of supplies (mechanical, electrical, aluminum, etc.) from other countries where tariffs do not apply, and exploring measures to shield the infrastructure sector from prolonged economic volatility. This includes ensuring government stakeholders involved in P3s within each jurisdiction are aligning their approaches.

Without timely interventions, these tariffs could compromise the ability to deliver high-quality, cost-effective infrastructure that supports Canada's economic growth and competitiveness.