

BY DAVID BOWCOTT

# Navigating the Impact of Tariffs on the Construction Industry

The recent imposition of U.S. tariffs on Canadian goods has triggered swift retaliatory measures from Canada, creating a volatile trade environment. These tariffs, which target a wide range of products, including steel, aluminum, and other construction materials, have the potential to significantly disrupt the domestic construction industry. Increased costs for imported materials could lead to higher expenses for fixed-price construction projects, delays, and tighter profit margins.

While these tariffs may be delayed or temporary, it is prudent for all stakeholders within the Canadian construction industry to act as if they will remain in place for the foreseeable future. The following are key strategies that construction stakeholders can adopt to mitigate the impact of this U.S.-Canada trade dispute:

## 1. Adapt Budgeting and Contract Strategies

Given the rising costs associated with tariffs, construction firms should reassess project budgets and incorporate contingency plans into new contracts. Proactively addressing potential cost fluctuations with clients ensures transparency and financial stability.

For ongoing projects, negotiating contract revisions to reflect tariff-related increases may be necessary. Additionally, securing fixed-price agreements with suppliers or purchasing materials in advance can help lock in costs and prevent unexpected financial setbacks.

## 2. Understand and Diversify Your Supply Chain

To counteract the impact of retaliatory tariffs, construction companies should explore suppliers beyond the U.S., focusing on Canadian-made alternatives or sourcing materials from international markets such as Europe, Mexico, or Asia. Establishing long-term relationships with domestic manufacturers can help secure stable pricing and reduce reliance on tariffed goods. If U.S. sourcing remains necessary, negotiating favorable terms, such as bulk purchase discounts or cost-sharing agreements with suppliers, can help minimize financial strain. In addition to diversification strategies as it relates to your supply chain, a key risk mitigation strategy is always having a deep understanding of your supply chain (both direct and indirect). This should be a constant goal for any organization.

### 3. Maximize Resource Efficiency

Reducing material waste and optimizing resource usage can help offset higher expenses due to tariffs. Implementing value engineering techniques allows firms to explore alternative designs that maintain quality while minimizing reliance on expensive, tariffed materials. Efficient inventory management, improved cutting techniques, and repurposing unused materials can further reduce costs. Exploring alternative materials, such as Canadian steel or engineered wood, can also provide viable, cost-effective substitutes without compromising project integrity.

### 4. Strengthen Logistics and Procurement Strategies

Refining procurement and logistics strategies can help construction companies navigate tariff-related cost increases. Utilizing bonded warehouses allows for duty-free storage until materials are required, reducing immediate financial pressure. Exploring Free Trade Zones (FTZs) can provide opportunities for tariff deferral or reduction, helping to manage costs more effectively. Adjusting shipping routes and leveraging regional trade agreements can further optimize procurement expenses, ensuring a more flexible and resilient supply chain.

### 5. Leverage Government Support and Advocacy

Construction firms should explore available government assistance programs designed to support businesses affected by tariffs. Federal and provincial initiatives may offer grants, tax credits, or financial relief to help offset increased costs. Engaging with industry associations, such as the Canadian Construction Association (CCA), can provide valuable advocacy opportunities, potentially influencing trade policies and securing exemptions or subsidies. Staying informed on policy changes ensures that businesses can quickly adapt to evolving trade conditions.

### 6. Enhance Operational Efficiency

Improving operational efficiency is key to maintaining profitability amid rising material costs. Optimizing labor management through better scheduling, workforce training, and advanced construction techniques can boost productivity while reducing unnecessary expenses. Implementing lean construction practices, such as just-in-time inventory management and automation, can streamline processes and lower overhead costs. By evaluating administrative expenses and reallocating resources strategically, companies can maintain financial stability without compromising project quality.

### The Role of Industry Unity and Advocacy

If these tariffs remain in place long-term, industry unity and coordinated action will be essential to navigating this economic challenge. One of the most effective ways to drive positive outcomes is through active engagement with local and national construction associations. Ensure your company is working closely with the construction associations it belongs to, helping to amplify the industry's messaging and maintain consistency.

National construction organizations, such as the Canadian Construction Association (CCA), play a key role in consolidating local construction association messaging and optimizing advocacy efforts. By leveraging these networks, industry stakeholders can influence policy discussions and push for trade solutions that support the construction sector's long-term health.

We have dealt with substantial shocks to the construction industry before – most recently the impact of COVID. The knowledge of how previous shocks to our industry were resolved and minimized, and the addition of the above issue specific practices, should help all construction stakeholders mitigate financial impacts while maintaining competitive pricing and high-quality project execution.

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