# Bye Buy Canada?

Evaluating social procurement strategies under Canada's trade commitments

Noah Fry

www.policyalternatives.ca RESEARCH ANALYSIS SOLUTIONS





#### ISBN 978-1-77125-657-5

This report is available free of charge at www.policyalternatives.ca.

#### PLEASE MAKE A DONATION...

## Help us to continue to offer our publications free online.

With your support we can continue to produce high quality research—and make sure it gets into the hands of citizens, journalists, policy makers and progressive organizations. Visit www.policyalternatives.ca or call 613-563-1341 for more information.

The CCPA is an independent policy research organization. This report has been subjected to peer review and meets the research standards of the Centre.

The opinions and recommendations in this report, and any errors, are those of the authors, and do not necessarily reflect the views of the funders of this report.



#### **ABOUT THE AUTHORS**

Noah Fry is a PhD candidate in the Department of Political Science at McMaster University. He writes on Canadian trade policy, public administration, and interest groups.

#### **ACKNOWLEDGMENTS**

This paper draws from the author's 2023
Progressive Economics Forum essay. His
research is supported in part by the Social
Sciences and Humanities Research Council
(SSHRC). He thanks Stuart Trew, Randy
Robinson, and Kaylie Tiessen for their feedback
on earlier drafts.

#### Bye Buy Canada?

- 4 Introduction
- 6 Canada's extensive trade-based procurement commitments
- 8 Evaluating Canadian social procurement strategies
- 12 Pathways for social procurement innovation
- 15 **Notes**

# Bye Buy Canada?

Evaluating social procurement strategies under Canada's trade commitments

#### Introduction

It is now common knowledge that the deep economic globalization of the past 30 years, while generating unprecedented wealth for some, increased risks and insecurity for many others. This insecurity is compounded by recent global value chain destabilization related to the COVID-19 pandemic, global warming, war, developing country debt, and geopolitical rivalries. Canada has been an ardent defender of global institutions during this time, progressively expanding the scope of international trade commitments. Meanwhile, public faith in the global institutions that struggle to manage this insecurity is in decline.

Governments have responded to these overlapping shocks in different ways. Some, like Canada, are attempting to draft more "inclusive" trade agreements without fundamentally altering the rules-based institutions that govern globalization. Others in the Global South and North are experimenting with heterodox domestic policy adjustments that aim to re-shore investment and production lost to low-wage regions in ways that may challenge present trade rules. One leading example of such a policy is social procurement.

Social procurement is the use of (usually) public entity purchasing to create social value.1 Rather than primarily selecting by lowest cost, public

#### **TABLE 1** Types of social procurement

Туре	Description	Example
1. Best value with social outcomes	Re-orienting purchasing to include social benefits. Bidding remains competitive and open.	A federal department contracts out the administration of a program, evaluating bids, with worker skill development in mind.
2. Positive discrimination	Procuring from (only) certain suppliers with social benefits. Bidding is limited.	A provincial department offers a contract for businesses exclusively from their jurisdiction.
3. Ethical purchasing	Purchasing of goods and services that offer social benefits in their own right. Bidding is either open or limited.	A Crown corporation purchases furniture made with recycled materials.
4. Third sector	Procuring goods and services from third sector groups. Bidding is both limited and competitive.	Environmental NGO delivering summer education programming for a municipality.

bodies with a social procurement strategy may consider other things, like localized production, socially conscious sourcing, and higher compensation for workers. In their book, Social Procurement and New Public Governance, Josephine Barraket, Robyn Keast, and Craig Furneaux develop a helpful typology for distinguishing between four different, though not mutually exclusive, social procurement strategies, which informs the typology in Table 1.2

As skepticism of globalization increases, social procurement strategies are becoming commonplace. The United States has long maintained positive discrimination in social procurement through policies like Buy America (related to federal transfers for state-level spending) and Buy American (related to federal spending). Under U.S. President Joe Biden's administration, this strategy has been expanded in novel ways.<sup>3</sup> A new Made in America Office, for example, strictly monitors requests for waivers from the domestic content requirements in these policies, which were raised for the federal Buy American Act. The U.S. also included significant domestic content requirements in the energy tax credits of the Inflation Reduction Act. South Korea, Australia, and South Africa have introduced similar, if more modest, policies.<sup>4</sup>

In Canada, the federal and some provincial governments are jumping on this trend but face barriers of their own making. As the only country to have a comprehensive trade agreement with each G7 member, Canada has positioned itself as a rules-based international order stalwart. That is, Canada has favoured international rules that constrain governments to a narrow set of free-market policies with the aim of creating a so-called level playing field. The trouble is that the content of these agreements can block

#### What is the rules-based international order?

The rules-based international order, or RBIO, is the set of rules and institutions governing international trade and foreign relations. This order is often contrasted with earlier periods in which stronger economic or military powers set the terms of trade in their own favour, frequently to maximize trade surpluses. The RBIO emerged after the Second World War in the Bretton Woods institutions (World Bank and International Monetary Fund) and the General Agreement on Tariffs and Trade (GATT 1947). It has steadily become more robust since the 1980s, when trade agreements took a decidedly neoliberal turn culminating in the establishment of the World Trade Organization (WTO) in 1995. Critics of the RBIO question whether this order really does contain major powers, and whose interests are served by its particular rules.

> potential offsetting responses to new economic and social risks. Public procurement is a prime example.

#### Canada's extensive trade-based procurement commitments

International procurement rules require that covered government entities (e.g., a federal agency, Crown corporation, or local hydro utility) treat foreign and domestic bids on public tenders equally in most circumstances. Principally, these commitments are upheld by national treatment and nondiscrimination expectations. Procedural disciplines further restrict public purchasing options by standardizing the bidding process, debriefings and, crucially, assessment criteria. Many trade agreements emphasize "best value" as the key criterion for bid assessment, which is generally interpreted as a matter of cost efficiency.

Trade agreements further prohibit offsets, defined as "any condition or undertaking that encourages local development or improves...balance-ofpayments accounts." Lastly, trade-based procurement rules demand dispute resolution processes for foreign suppliers. In all of these respects (see Table 2), Canada outpaces much of the world in procurement rules.

These trade-based procurement rules only apply on tenders above certain monetary thresholds, which Canada has lowered in recent trade agreements, with the effect of expanding procurement coverage. Canada is a party to six international agreements with lower thresholds than those in the plurilateral Agreement on Government Procurement (WTO-GPA) at the

TABLE 2 Selected procurement commitments within Canadian international trade agreements

Coverage	# of agreements (%)	Global total (%)	# of countries involved
National treatment	9 (60%)	83 (29.9%)	56
A threshold value for goods procurement lower than the WTO-GPA	6 (43%)	25 (9.0%)	6
Limited tendering provisions	9 (60%)	61 (21.9%)	56
Provisions on information provided to bidders (results and non-selection reasons)	9 (60%)	64 (23.0%)	56
Explicit dispute settlement procedures	9 (60%)	71 (25.5%)	56

Source Data for the table is drawn from the World Bank's Deep Trade Agreement Database (current to 2016) and author evaluations of the Canada-U.S.-Mexico Agreement, Canada-EU Comprehensive Economic and Trade Agrement (CETA), Canada-Ukraine Free Trade Agreement, and the WTO Agreement on Government Procurement. CETA is used as indicator for the U.K., since the Canada-U.K. Trade Continuity Agreement largely mirrors the EU deal.

World Trade Organization (see Figure 1). For goods, the internal Canadian Free Trade Agreement (CFTA) covers the broadest number of public entities and at the lowest thresholds, though the deal is only binding domestically.5 For services, several international agreements have lower thresholds than the CFTA.

Given the complexity of Canada's overlapping trade-based procurement commitments, it is often administratively simpler for federal and provincial procuring entities to abide by the strictest expectations. In practice, this means that suppliers based in any country—not just countries that have made procurement commitments to Canada—can "free ride" off of Canada's highly liberalized procurement market, as recognized by the federal government in recent consultations on a proposed "reciprocal procurement" strategy.

Canada's market access schedules have also ballooned over time, covering the bulk of public spending by all levels of government entities. The Canada-EU Comprehensive Economic and Trade Agreement (CETA) is the worst offender, with its exhaustive access commitments to sub-national governments, the MASH sector (municipalities, academic institutions, schools, and hospitals), and Crown corporations. On the latter, most jurisdictions (federal, provincial, and territorial) either covered all Crown corporations in CETA or carved out a few exceptions (e.g., Ontario Infrastructure and Lands Corporation, Manitoba Public Insurance Corporation, etc.). Once again, these commitments far exceed those made under the GPA.

In restraining procurement in this way, Canadian policy-makers are making a calculated exchange, but one that is based on contestable assumptions. First, they broadly assume that greater "liberalization" of government procurement fortifies the rules-based order when it may do the opposite.

FIGURE 1 Procurement thresholds by Canadian trade agreement for 2023 (goods)<sup>6</sup>



Source Treasury Board of Canada Secretariat, Contracting Policy Notice 2021-6 Trade Agreements: Thresholds Update.

Second, policy-makers have assumed that greater competition for tenders, through cost efficiency, produces better outcomes. Working from these assumptions, Canada has narrowed the potential for social procurement, which we can see reflected in recent federal and provincial government policies and legislation.

### **Evaluating Canadian social procurement strategies**

Canadian governments have been experimenting with different forms of social procurement for a couple of decades. Earlier attempts at social procurement, however, were narrow and not concerned with social adjustment costs associated with globalization. More holistic attempts at social procurement have emerged within the last two years. In response to economic anxieties and U.S. efforts to draw investment, the federal, Ontario, and Québec governments have established social procurement strategies.

The federal government's Policy on Social Procurement was first introduced as a trial, from 2018 to 2020, and has since been made permanent. Through procurements made under the acquisitions program, the policy aims to reconcile socioeconomic considerations with "best value for money." These considerations include contracting with social enterprises where possible,

diversity and inclusion, help for small- and medium-sized enterprises, and job creation. The policy defines "best value" as "the optimal balance of resource expenditure and realization of outcomes, including socioeconomic and environmental returns."

In brief, the federal strategy aims to work within existing trade agreements and legal frameworks. Rather than only targeting government purchasing above trade-related procurement thresholds, the policy re-orients "best value" expectations—typically expressed as "Most Economically Advantageous Tender" or MEAT—to include social objectives. The policy neither stipulates how this should be done nor does it articulate which indicators should be used. Unlike similar programs in the U.S. (e.g., Buy America and Buy American), the policy makes no commitment to localize or reshore investment and production. Foreign bidders remain eligible and may yet offer the most socially advantageous outcomes.

By contrast, Ontario's recent strategy explicitly aims to funnel more public money into provincial firms. The Building Ontario Businesses Initiative (BOBI) was introduced in 2022 and is instrumentalized in the Building Ontario Businesses Initiative Act.8 The act gives Ontario suppliers preference on goods and services purchases below trade thresholds. For this reason, the initiative has been informally named Buy Ontario. The initiative further aims to include social considerations in bid evaluations. Finally, an industrial regional and technology (IRTB) requirement in the BOBI introduces economic development considerations, like supply chain localization, for contracts above \$10 million.

BOBI has potential to achieve social objectives, but there are scant details of the program so far. Since it was introduced, there has been little communication on the initiative and how it will be administered. The initiative's social considerations component has no evident follow-up documentation. Still, we might broadly say that Ontario is transitioning its public procurement process. By November 2023, a new Crown agency, Supply Ontario, will manage public procurement for much of the province.

Lastly, the government of Québec introduced its own social procurement strategy in 2022. Priorité à l'achat Québecois : l'État donne l'exemple (translation: Buy Québec: The State Leads by Example) is multi-faceted and includes the following objectives:

- Ensure 100% of education, health and social services networks have local food purchasing targets.
- Increase socially responsible acquisitions.

- Increase the number of prospective Québec vendors through training and workshops.
- Direct procuring entities to favour Québec-based businesses for all procurements under trade agreement thresholds.
- Introduce set-asides for both Québec- and Canadian-based small businesses for procurements valued above the internal trade agreement (CFTA) threshold but below external trade agreements.
- Add a 10 per cent preference allocation for Québec or Canadian value-added advantages within the same monetary range.9

Buy Québec is the most comprehensive of any Canadian social procurement effort. It is obviously inspired by federal Buy American requirements and re-interprets "best value" with more precise indicators.

In Table 3, the three social procurement policies mentioned above are compared. Each strategy has its own strengths. The federal strategy engages the most with underrepresented and marginalized groups and its engagement with "best value" has the most depth in social considerations. It is also not limited by trade agreement thresholds. Buy Ontario covers the most public entities, including state enterprises and most of the MASH sector. Buy Québec is the most thorough strategy. It takes aim at both purchasing below and above agreement thresholds and, refreshingly, considers the gap between the CFTA and other trade agreements.

These strengths notwithstanding, each strategy has major limitations. The federal policy is the most cautious. Its engagement with social procurement is narrowed to a matter of finding "best value." While we can argue social goals are valuable, the federal strategy foists the burden of proof on procuring entities. In other words, it is up to procuring entities to justify and weigh social determinants in their evaluations. Given the potential for losing bidders to dispute such value judgments before the Canadian International Trade Tribunal, this lack of clarity in the federal policy could as easily chill social procurement as encourage it. By contrast, while positive discrimination is a blunt instrument, it is administratively efficient. This much cannot be said about the Policy on Social Procurement.

Buy Ontario is the least considerate of the three strategies. Its use of positive discrimination is severely limited by a low ceiling tied to trade commitments in CETA and CFTA. Construction projects undertaken by Crown corporations, school boards, and academic and health entities have higher thresholds and may therefore have a higher impact, but these thresholds

**TABLE 3** Comparing procurement strategies

Policy Characteristic		Policy on Social Procurement (Federal)	Building Ontario Businesses Initiative	Buy Québec Priority
Social Procurement Typology	"Value" including social determinants	Yes	Yes <sup>10</sup>	Yes
	Positive Discrimination	No	Yes	Yes
	Ethical Purchasing	Yes	No	Yes
	Third Sector	Yes	No	No
Additional Public Bodies	MASH	Not applicable	Yes <sup>11</sup>	Yes
	State Enterprise	No	Yes	Yes <sup>12</sup>
Considerations	Specified Weight to social characteristics	No	No	Yes
	Fair wages	No	No	No
	Employment	Yes	No	No
	Local economic stimulation	Yes	Yes	Yes
	Skill development	Yes	No	No
	Environmental considerations	Yes	No	Yes
	Race & Ethnicity	Yes	No	No
	Regionalism	No	Yes	Yes
Contract Value	Goods	Not applicable	\$30,30013	\$30,300
Ceiling	Services	Not applicable	\$121,000	\$121,000
	Crowns Goods and Services: (Cdn)	Not applicable	\$605,600	\$605,600
Other	Enacted	Yes	No	Yes

Note Circles indicate the category is not applicable. Some provisions in these agreements function under the Canadian Free Trade Agreement (CFTA) but not international trade agreement thresholds.

also stick within Ontario's trade-related procurement commitments.14 The most impactful aspect of the Ontario policy will be its industrial component, though this suffers from the opposite problem—a high spending threshold that may cover very little, in practice. What's more, Buy Ontario barely engages with "value" and has no guidance on what counts as socially beneficial.

Buy Québec is the foil to the federal strategy. While aggressive on industrial components, the policy pays no mind to individual or systemic factors, such as race, ethnicity, or gender, which may affect procurement opportunities. Equity-seeking groups are therefore unlikely to see much benefit from this strategy. Buy Québec shows little interest in social adjustment costs beyond industry and region. It is also constrained by trade-based procurement thresholds.

What explains the weaknesses of these social procurement strategies? First, there are ideological assumptions embedded in each strategy that reflect on their respective governments. The federal effort is bound by a liberal preference for free-market (open competition) approaches to procurement and an emphasis on empowering individuals and marginalized groups. Showing its right-wing populism, the Ontario government uses positive discrimination for provincial firms, but within Canada's trade limits, and has little depth on social factors. Québec's strategy might be called right-wing nationalist: it employs positive discrimination and discusses industrial and regional development but demonstrates little concern for systemic inequalities.

Second, and most important, all three strategies are narrowed by international trade commitments that exceed those most other countries accept. Buy Ontario and Buy Québec are explicitly limited by trade agreement thresholds. Other innovations in Buy Québec, while noteworthy, will not move the needle much. Through CETA especially, Ontario and Québec have signed away the capacity for a more comprehensive social procurement policy.<sup>15</sup>

The federal government has it worse. Most of Canada's active trade agreements have procurement chapters that apply to federal public entities. The thresholds for federal public entities are lower and processes are more likely to be scrutinized by domestic review. The federal policy asks individual agencies and Crown corporations to re-interpret value within the existing competitive bidding process, but, without guidance on how to do so, this creates strong incentive by procuring agents to minimize risk.

### Pathways for social procurement innovation

Due to trade commitments, Canadian jurisdictions are limited in the kinds of social procurement policies that they can enact. Canadian policy-makers were overly hasty in making extensive public procurement commitments in recent agreements, the Canada-EU Comprehensive Economic and Trade Agreement (CETA) in particular. It is one thing to advance comprehensive coverage in a pluri-national agreement like the WTO-GPA; at least then more countries are held to the same standard. It is another thing, however, to layer stronger and highly complex commitments in bilateral, regional, or internal free trade agreements. Public entities will often abide by the most comprehensive rules, providing free-rider benefits to suppliers from non-party countries.

Fiscal Year

	2021-22	2020-21	2019-20	2018-19	2017-18
<b>Competitive Process</b>	77%	81%	80%	81%	81%
Contracts Valued over 100K	68%	64%	64%	62%	65%
Domestic Supplier	92%	90%	91%	91%	92%

Source Data pulled from an archived contract history dataset with Public Services and Procurement Canada. See endnotes for a web link.

The federal government recognizes this challenge. In 2022, Canada launched federal consultations on a reciprocal procurement policy. As initially envisioned, the policy aims to ensure fairness in Canadian public procurement by reducing access for suppliers from countries without commensurate openness to Canadian bidders. 16 The Canadian Centre for Policy Alternatives problematized the approach in a submission to the government published online.<sup>17</sup> In brief, it said, reciprocal procurement introduces administrative challenges and may agitate relations with already disadvantaged countries from the Global South. I would add that the vast majority of federal suppliers are Canadian (see Table 4). This is not the path for a comprehensive social procurement policy.

A more comprehensive *social* versus reciprocal procurement policy could draw insights from the recent federal, Ontario, and Québec policies discussed here. Positive discrimination procurement (e.g., Buy Canadian) is efficient and should be used at the federal level wherever the government has carved out certain kinds of spending (e.g., urban transit, highways) from its trade commitments, as well as below agreement thresholds. If the federal government is reluctant to fully embrace positive discrimination, they could employ a percentage-based bonus like that used in Québec. Admittedly, as indicated in Table 4, few contracts fall below conventional thresholds. To compensate, the federal government could also re-interpret "best value" as currently written in its policy but add defined indicators and guidelines. Social procurement considerations should include individual, systemic, environmental, regional, and industrial factors, as outlined in Table 3.

Ultimately, to unlock social procurement's greatest potential, Canada would need to re-evaluate its current trade commitments. At least notionally, the federal government can modify its procurement commitments at the WTO in free trade deals like CETA and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and in the internal Canadian Free Trade Agreement (CFTA), by notification.

Going forward, Canadians should be wary of making any further procurement concessions in trade agreements if these commitments undermine the potential of social adjustment programs, including social procurement. The federal government has indicated its intent to include reciprocal procurement rules in trade negotiations with Indonesia, the U.K., and ASEAN. Unfortunately, it appears, future agreements are headed in the wrong direction.

# Notes

- 1 Jo Barraket, "The Role of Intermediaries in Social Innovation: The Case of Social Procurement in Australia," Journal of Social Entrepreneurship 11, no. 2 (2020): 194-214. https://doi.org/10.108 0/19420676.2019.1624272.
- 2 Josephine Barraket, Robyn Keast and Craig Furneaux, Social Procurement and New Public Governance, New York: Routledge, 2016.
- 3 The White House, "FACT SHEET: Biden-Harris Administration Issues Proposed Buy American Rules, Advancing the President's Commitment to Ensuring the Future of America is Made in America by All of America's Workers," 2021, https://www.whitehouse.gov/briefing-room/ statements-releases/2021/07/28/fact-sheet-biden-harris-administration-issues-proposed-buyamerican-rule-advancing-the-presidents-commitment-to-ensuring-the-future-of-america-is-madein-america-by-all-of-americas/.
- 4 Barraket, "The Role of Intermediaries in Social Innovation."
- 5 There are other interprovincial agreements with procurement stipulations (eg. New West Partnership Trade Agreement).
- 6 Treasury Board of Canada Secretariat, "Contracting Policy Notice 2021-6 Trade Agreements: Thresholds Update," December 20, 2021, https://www.canada.ca/en/treasury-board-secretariat/ services/policy-notice/contracting-policy-notice-2021-6.html.
- 7 Public Services and Procurement Canada, "Policy on Social Procurement," August 12, 2020, https://www.tpsgc-pwgsc.gc.ca/app-acq/pas-posp-eng.html.
- 8 Ontario, Government and Customer Services, "Province Launches Building Ontario Businesses Initiative," March 9, 2022, https://news.ontario.ca/en/release/1001729/province-launches-buildingontario-businesses-initiative.
- 9 Québec, Pour des marchés publics innovants-Priorité à l'achat Québecois: l'état donne l'exemple, Québec: Secrétariat du Conseil du trésor, 2022, https://cdn-contenu.Quebec.ca/cdncontenu/adm/min/secretariat-du-conseil-du-tresor/publications-adm/SSMP/marches-publics/ SSMP\_Strategie\_marches\_publics.pdf.

- 10 Few details are available on what Ontario understands as 'best value.'
- 11 Municipalities do not appear to be covered, while other MASH sectors are.
- 12 Only some state enterprises are covered and only in particular ways.
- 13 Ontario is currently inviting feedback on these proposed thresholds. Ontario's Regulatory Registry, Proposed Approach for Regulations under the Building Ontario Businesses Initiative Act, 2022, Toronto: King's Printer for Ontario, 2023, https://www.ontariocanada.com/registry/ view.do?postingId=45027&language=en#:~:text=Under%20the%20Building%20Ontario%20 Businesses%20Initiative%20Act%2C%202022%2C%2opublic%2osector,under%20the%20 prescribed % 2 othreshold % 2 oamounts.
- 14 For Crown corporations, the construction threshold is \$6,056,100 and for other MASH sector entities (minus municipalities), it is set at \$302,900.
- 15 Both Ontario and Québec have, however, CETA carveouts for mass transition vehicles. In brief, these carveouts allow both provinces to require 25 per cent contract value in Canada, unless lowered in subsequent agreements. Québec can further require assembly in Canada.
- 16 Global Affairs Canada and Finance Canada, "Share your views, consultations on reciprocal procurement policies in Canada," June 28, 2022, https://www.international.gc.ca/trade-commerce/ consultations/RP-AR/index.aspx?lang=eng.
- 17 Stuart Trew, Reciprocal but not optimal: Federal procurement reform should focus on maximizing public benefit, not penalizing Canada's trade partners-A submission from the Canadian Centre for Policy Alternatives to Global Affairs Canada's Reciprocal Procurement Consultation, Ottawa: Canadian Centre for Policy Alternatives, 2022, https://policyalternatives.ca/publications/ commentary/reciprocal-not-optimal.
- 18 Data pulled from archived contract history dataset. Public Services and Procurement Canada, "Archived, contract history," Ottawa: Government of Canada, 2023, https://open.canada.ca/data/ en/dataset/53753fo6-8b28-42d7-89f7-04cd014323bo.



