Canadian Construction Association
Best Practices Services

CCA BULLETIN

Managing tariff risks in construction projects

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This bulletin was prepared by select members of the Canadian Construction Association's (CCA) General Contractors National Advisory Council. Its purpose is to assess the potential impacts of tariffs and counter-tariffs on general contractors in Canada, focusing specifically on:

- The effects of tariffs on projects currently in procurement
- The impact of tariffs on projects already under construction

In both areas, we will explore both upstream and downstream impacts – examining how tariffs influence relationships with owners as well as interactions with subcontractors.

Macroeconomic impact of tariffs

Before examining the specific impacts of tariffs on construction contracts, it is important to understand the anticipated broader macroeconomic trends resulting from the imposition of tariffs by the current U.S. administration. These tariffs can have far-reaching effects on overall construction costs in Canada.

Tariff impact on costs:

A 25 per cent tariff does not translate to a dollar-for-dollar increase in project costs. Current estimates suggest that the steel and aluminum tariffs announced to date will result in a three to five per cent total increase in project costs. However, the impact could be much greater if the affected product supplied is the major component of a project – such as steel used in a bridge or structural framework. Additionally, if more wide-ranging tariffs are announced by U.S. President Donald Trump, we can expect a broader impact on overall project costs.

Retaliatory tariffs:

Canadian retaliatory tariffs will affect project costs, though the impact is expected to be more modest – around two to five per cent on a typical building project. However, the risk posed by U.S. tariffs is more substantial, particularly for steel manufacturers in Canada. These manufacturers face significant risk to the viability of their operations because of their dependency on the U.S. market.

Compounding impacts of a depreciating Canadian dollar:

If trade tensions weaken Canada's trade balance, tariffs could trigger fluctuations in currency exchange rates. A depreciating Canadian dollar could increase the cost of imported construction materials, regardless of their country of origin. This would further compound the impacts of tariffs on construction cost in Canada.

Impact on future projects

The imposition of tariffs and the uncertainty surrounding future trade policies are creating significant challenges for future construction projects. As the construction industry navigates these changes, it is essential to understand how tariffs will impact bidding, project timelines, and overall project costs. The ripple effects of this uncertainty will continue to create risks and complications for contractors, owners, and subcontractors alike.

Riskier tender/bid requests:

At the time of writing this article, the U.S. has imposed a 25 per cent tariff on steel and aluminum produced in Canada. Although the additional tariffs announced on April 2, 2025 primarily target other nations, there remains significant uncertainty about future tariff changes that could still affect Canada. The lack of clarity on which goods will be affected or when tariffs might change makes tender and bid requests more complex and riskier. This uncertainty leads to higher project costs and potential delays. It could also put pressure on some projects already in progress because the client may elect to hold or cap off the project due to price uncertainty.

Extensions to closing dates:

Market fluctuations and supply chain interruptions are also causing extensions to closing dates and project timeframes. This is related to the uncertainty of overall project pricing, especially since – as discussed above – some private owners are deciding not to proceed on some projects due to price uncertainty. On projects that proceed but face delayed closing dates, the extension of project timeframes can negatively impact a general contractor's work backlog and cash flow position.

Force Majeure and Change in Law clauses:

When bidding on work, contractors should be diligent in understanding who bears the risk of tariffs in their contracts, as this burden should not fall on the general or trade contractor. When reviewing contracts out to tender, consider whether a contract contains relief by way of force majeure clauses for changes in law or war. These clauses can provide relief in case of unforeseen events that make contract performance impossible or impractical. It is essential to ensure force majeure and change in law language in your contract does not exclude tariffs.

New "Floor Prices":

Experience from the 2018 tariffs on steel and aluminum suggest that if American consumers continue to purchase at 125 per cent of the cost, this will set a new "floor price" for steel and aluminum. As a result, even if a project is seeking to purchase from Canadian suppliers (i.e., a "buy local" emphasis in procurement), pricing for Canadian purchasers may increase regardless of where the finished goods originate.

Subcontractor bids:

Subcontractors typically will include contingencies for potential tariffs in their bids, which can drive up overall project prices. While this is a common practice to mitigate the risk of sudden cost increases, it's important to carefully review the pricing increases. Dramatic price escalations may prevent projects from moving forward, leading to further delays or cancellations. Additionally, be cautious of subcontractor bids which contain inflated pricing but still qualify any tariff risk.

Impact on existing projects

The impact of tariffs extends beyond future projects and significantly affects ongoing construction work. For projects that are already underway, the imposition of new tariffs can result in unexpected cost increases, delays, and disputes, especially if the contracts in place were executed before the tariffs were introduced. As these projects move forward, contractors, subcontractors, and owners must navigate the evolving landscape of tariff-related risks, ensuring that contracts are reviewed and that costs are properly managed to avoid financial strain and project disruptions.

Executed contracts:

Contracts signed a year ago may not account for current tariffs, leading to unexpected cost increases. Parties should review their contracts to understand their rights and obligations under the new tariff regime.

Contract types:

The impact of tariffs is not necessarily dependent on the type of contract used. What matters most is the detail and specific language in the contract about tariffs. For example, construction management contracts may include a clause that places the tariff risk on the trades and or the construction manager.

Material price increases:

Panic-buying in anticipation of tariffs may cause significant price hikes in materials such as steel, aluminum, lumber, and concrete. The uncertainty surrounding tariffs is also affecting the prices of appliances, mechanical equipment, doors, hardware, elevators, and electrical components.

Schedule impacts:

In addition to material price increases, contractors may experience delays in material delivery as companies adjust to new costs and logistical complexities. Whether through parties seeking new supply chains to avoid tariffs, hoarding of materials by suppliers, or “bully” purchases of large orders to jump production queues and avoid tariffs, it is likely that lead times will increase and supply chains will face disruption.

Inequitable risk through contracts:

While prime contracts may allow general contractors and construction managers to claim for tariff-related costs, subcontracts often do not. This can lead to price gouging and disputes between parties. Therefore, it is key to transfer risk in both the main contract and any drop-down contract terms to avoid this behavior.

Passing tariffs to subcontractors:

Be cautious about passing additional tariffs to subcontractors. Court cases have generally favoured subcontractors in disputes over tariff-related cost increases, particularly in cases when the trades did not have access to the main contract or there was a lack of transparency.

Risk of subcontractor insolvency:

The financial strain caused by higher tariffs could threaten the viability of many subcontractors, jeopardizing their ability to complete projects on time and maintain operations. To manage this risk, it is important that subcontractors provide sufficient performance security for their subcontract.

Proving potential losses:

It is important that general contractors ensure that manufacturers and suppliers prove potential losses due to tariffs to justify price increases. This often involves detailed documentation and analysis of the financial impact. The more details provided about the loss, the better the chance to successfully negotiate full contractual relief upstream.

Risk mitigation strategies

As the impact of tariffs continues to affect the construction industry, it's crucial to proactively manage risk to protect both your projects and your bottom line. Instead of absorbing the risk, consider implementing the following risk mitigation strategies to alleviate the potential impact of tariffs. By planning ahead and taking strategic actions during both the tender process and construction phase, you can reduce the potential impact of tariffs on your projects.

During tender:

Consider providing flexibility in your bid submission by way of contingencies, cash allowances, setting thresholds for acceptable price increases, and incorporating escalation clauses. Additionally, locking in prices with subcontractors and suppliers early can help prevent unexpected cost escalation as tariffs are imposed.

During construction:

Pay careful attention to document impacts from tariff increases and maintain all supporting evidence, such as customs and brokerage slips. This evidence will be helpful in proving price escalation claims. Similarly, clear and timely communication between the project team, the client, and affected subcontractors is critical so that the parties are aware of the circumstances and have an opportunity to consider mitigation steps.

Supply chain management:

In some scenarios, diversifying your supply by working with several subcontractors and suppliers can help defray your project's or company's risk of default. Similarly, consider whether you can capitalize on market position to allow for the purchase of bulk materials at a discounted rate.

Push back against tariff increases:

Consider sourcing Canadian products and products from countries with whom Canada has positive trade relationships. This strategy can help mitigate the impact of tariffs on small companies, although it may require adjustments in supply chain management.

For more information, please read the January 2025 article on tariffs that elaborates on contract language, Preparing your business for potential tariffs: What you need to know, and the CCA bulletin: Price instability, published in 2024.