

# The Power of Local Purchasing

## Good Jobs Economy in BC

Columbia Institute is focused on nurturing leadership for inclusive, sustainable communities. We look for research questions that will leverage public policy to help us meet the inherent challenges of our time. Those include rising wealth gap, climate change, environmental degradation and democracy deficit. These mega trends are building to a perfect storm -- interconnected in their effect and in their solutions.

Much of our work, but not all, is approached through a local governance lens.

The interconnection in these mega trends is being noted by some unusual organizations. Even the World Bank and the IMF are beginning to speak from the same song sheet. As Christine Lagard – head of the International Monetary Fund – said memorably about a year ago.

“Unless we take action on climate change, future generations will be roasted, toasted, fried and grilled.” Pretty straight forward. And she’s made some interesting comments about the wealth gap too .... “Today I believe we are facing a triple crisis – an economic crisis, an environmental crisis, and increasing, a social crisis .... the gaps between the haves and the have-nots is getting wider and the strains are getting fiercer.” “History .... teaches us that democracy beings to fray at the edges once political battles separate the haves against the have nots.”

There’s a growing understanding that current global trade practices have hollowed out industries and sent skilled, well-paying jobs elsewhere --- to countries where there are fewer environmental regulations --- and where there is now much more pollution --- and where there are fewer protections for workers where they are not well-paid. It’s somewhat heartening to know that citizens are mobilizing in Europe against the Comprehensive Economic and Trade Agreement now on the table between Canada and Europe.

Canada's economy, historically based on extraction of raw materials, is being held static by national and provincial leadership bent on keeping Canada as an extractive economy. In BC, the governing party is promoting an increasingly wavery LNG mirage, and nationally we have a whole cloth economic strategy anchored around oil and gas. Workers from Newfoundland to Courtney, BC, (where there are direct flights available to Fort McMurray) commute to Alberta's oil patch for work. This isn't good for building communities. It's not so good for Fort McMurray, or for Dawson Creek --- all those mostly young, mostly male disconnected people with money to burn are hard on the host communities. It's not good for their home communities either, where they are absent from the life blood of their communities.

In the rising consensus about wealth gap and climate change, there is an understanding that one of the anti-dotes lies in strengthening our local economies. Forward thinkers speak about “re-localizing” and there is an undeniably retro resurgence in 60's and 70's influenced design, before we had a global economy and discount big box stores. Board games are making their way back into our lexicon and “local” is chic. The coolest cities are the ones that are taking back the streets from cars and building walkable, complete neighborhoods. In short, there is hope.

Harnessing purchasing power to support local economies offer tremendous promise.

## Made-in-BC Ferries – the economic benefits of local ship procurement

Institutional procurement is a powerful, and often underutilized, economic development strategy that can positively impact “value added” economic sectors. How and where procurement dollars are spent can have important economic effects.

This March (2014), Columbia Institute published a comprehensive look at the impact of building BC Ferries in British Columbia. It seems an obvious step to rebuild the once burgeoning marine manufacturing sector. The local economic advantage of building in-house is well understood by our neighbors to the south. It is unusual, both in the Pacific coast region and in Canada as a whole, for BC to export shipbuilding to offshore jurisdictions. Shipbuilding procurement is managed in nearby Washington State – and by the Canadian federal government – in quite a different manner.

The National Ship Building Strategy, announced in 2010, promised an investment of more than \$38 billion in federal funds to Canadian shipyards for the construction of new ships required by the Navy and the Coast guard. Building these ships in Canada is estimated to generate 15,000 jobs and \$2.4 billion in annual economic benefits over the next 30 years.

Given that the federal government has decided to spend such significant public sums on new oceangoing vessels, it makes sense to ensure the economic benefits of that investment accrue to Canadian businesses and workers. The federal procurement program is not only ensuring thousands of new jobs for Canadian shipbuilders, but is spurring shipyards to modernized and upgrade their facilities.

The BC government holds all the preferred shares of BC Ferries, which operates on a binding 60 year service contract with the provincial government. Just as the federal government has done with National Defence and Coast Guard procurement, and just as is done by law in Washington State and across the U.S., the BC government and its entity BC Ferries can ensure British Columbians benefit from the good quality manufacturing jobs that come with the building of new ferries.

But they haven't.

An RFP for three intermediate class ferries was issued by BC Ferries in July 2013 and the contract was awarded to the Gdansk Shipyard in Poland.

These three ships are only the beginning of the needed new build. According to projections from the BC Ferries Vice-President for Fleet Operations and Training in 2011, 26 replacement vessels will be needed over a 15 year period. Projected expenditure is \$2.5 Billion. Those are big dollar amounts and they represent a lot of jobs.

Rather than building BC's economy, the money spent building these three ferries will build Poland's economy.

What are the social and economic benefits to British Columbia of ferry construction in BC Shipyards? Economic modeling by Stokes Economic Consulting shows they are significant.

What did BC lose? The direct, indirect, and induced impacts of BC shipyard construction of the three ferries would have been:

- 1063 jobs EVERY year of the 3-year build
- An additional 135 jobs in British Columbia for every 100 jobs created in the BC shipyards
- \$378.5 Million in GDP
- \$200 Million increase in consumer spending
- \$249.7 Million increase in personal disposable income
- \$.50 for the economy from every \$1 spent on the ferries (production multiplier of 1.5)
- \$36 Million LESS debt for the Province and \$66 Million LESS debt for the federal government --- a total loss of \$102 Million to senior levels

BC also lost the opportunity to leverage the implementation of new federal and provincial industrial development strategies for revival of the shipbuilding and repair industry on Canada's West Coast.

The Province had already pledged \$550,000 for a shipbuilding training program at Camosun College in 2011, along with \$35 Million in provincial labour tax credits for training in the shipbuilding and repair industry and \$5 Million in long term viability of the broader marine sector.

This development followed on the heels of 2004 decision to procure new vessels out of Province from Flensburger Schiffbau-Gesellschaft in Germany. This was the first off-shore build for BC Ferries. It was controversial. The Mayors of the day said that “The North Vancouver shipyards are considerable economic generators within the local communities, contributing in excess of \$1million in property taxes to the local municipal revenue base.” The MLA for North-Vancouver Seymour, Dan Jarvis, from the governing Liberal Party said “To me it doesn’t make sense and would be blatantly stupid. There are no valid reasons to indicate that BC shipyards are not capable.”

Lost to BC this time around are the 1063 new jobs -- each year for 3 years – AND growth in shipbuilding capacity so that the NEXT 23 are built in BC to the benefit of BC's economy.

THE ECONOMIC IMPACTS OF FERRY BOAT CONSTRUCTION  
at the VANCOUVER SHIPYARDS  
*(From Made-in-BC-Ferries, Stokes Economic Consulting Inc.)*

Industry Impacts of Ferry Construction (GDP at 2013 basic prices)	Average Annual Increase	Cumulative 3-Yr Increase
TOTAL	115.3	346
Agriculture	0.3	0.8
Mining and Forestry	2.3	7.0
Manufacturing	44.2	132.6
Utilities	1.9	5.8
Construction	17.6	52.7
Wholesale and Retail Trade	11.8	35.4
Transportation and Warehousing	3.4	10.2
Finance, Insurance and Real Estate	11.8	35.4
Professional, Scientific and Management	8.7	26.2
Other Services	5.4	16.2
Education/Health/Government	3.7	11.2

The manufacturing industry would have experienced the largest impact from building the three BC ferries in British Columbia. The category contains the shipbuilding industry and the majority of the material inputs come from other manufacturing industries. The construction industry experiences the second largest impact.

## THE POWER of PURCHASING – Economic Impacts of Local Procurement

Institutional purchasers and businesses can have a major impact on our local economies. However, the economic impacts of their purchasing decisions are often ignored.

Procurement by private and public sector institutions is a major force in the economy. British Columbia local governments and school districts alone spend more than \$6.7 billion annually on procurement. How – and where – procurement dollars are spent can have important economic, employment, social, and environmental impacts.

The Power of Purchasing is the first study to examine the economic impacts of institutional purchasing in a Canadian context. It came about as a partnership between Columbia Institute, Loco BC and the ISIS Research Centre at the Sauder School of Business, UBC.

The study uses the example of office supplies to investigate whether there is a difference in economic impact from buying local and if so, to what degree. Office supplies are a common requirement of procurement.

The study compares a locally owned BC office supply company (Mills Basics) and three multi-national office supply companies serving the lower mainland. (OfficeMax, Staples and Office Depot). Both Staples and OfficeMax are multinational, publicly traded companies that have relatively strong local presences with sales and distribution in British Columbia. For comparison, Office Depot, a company that supplies to Canada, but has no local presence, was included.

Mills Basics, a BC-based office supply company, agreed to provide access to its private financial records so the local economic impact could be assessed. Since OfficeMax, Staples and Grand and Toy are publicly traded companies, a great deal of information regarding their finances and operations is publicly available.

The results showed a 77% to 100% economic advantage for BC from buying local. Using provincial multipliers to translate this into jobs show that this leads to an 80% to 100% increase in jobs per million dollars spent.

Mills Basics, the locally owned BC office supply company examined, recirculates 33.1% of its revenue directly to residents and businesses in BC, compared to between 16.6% and 18.7% for their multinational counterparts. The higher percentage delivered to the community economy from the multinationals is the union advantage. OfficeMax, the 18.7% return, is a unionized workplace.

This increased impact occurs because wholly local companies hire more local labour, give more money to local charities, distribute more of the profits from their operation locally, and buy more goods and services from local suppliers.

Because Mills Basics is locally owned, its profits earned also remain in BC. OfficeMax and Staples, on the other hand, are publicly traded companies that -distribute profits worldwide, often to large institutional owners and investors.

The more local suppliers and employees a company has, the greater the overall multiplier will be.

In charitable donations, Mills Basics gave five times as much money to charity as a percentage of revenue compared to OfficeMax and Staples.

All the companies purchase some goods and services from other businesses in the province, such as fuel, cleaning services, maintenance and other operational expenses. Mills Basics, however, purchases more from companies in BC, including legal, accounting, IT and banking services. The fact that Mills Basics procures many of its goods from wholly local BC companies means that its suppliers also have a larger impact on the local economy for the same reasons.

Labour is where the greatest difference in local economic impact comes into play. Mills Basics' entire payroll is made up of BC residents. Staples and OfficeMax both have local distribution centres in the province. Office Depot now operates entirely online in Canada.

A wholly local company will generate the largest economic impact per dollar spent. As more business functions, such as management, administration, marketing and customer service are removed from the local area, the amount of income re-circulated and the number of local jobs supported decreases. The economic multiplier increases with more business operations located in the local area. Knowing to what degree business operations – and jobs -- are local is essential to determining local impact.

Cities and regions spend millions of dollars on economic development. Private sector institutions similarly make investments in their communities as part of their overall business strategies. Both spend billions of dollars on the purchase of goods and services. Yet, these goals are rarely aligned.

The conventional wisdom governing procurement is that it should be unbiased toward potential suppliers and provide the best value for money, with value often defined narrowly in terms of the lowest price. This doesn't have to be the case.

Mills Basics Contribution to Local Jobs (Delivery Co-op, Delivery Staff, Accountants, Lawyers, Purchasing, IT Professionals, Marketing, Warehouse Staff, Customer Service, Human Resources, Management, Bankers, Sales Staff, Administration, Owners, Maintenance, cleaning and Repairs)

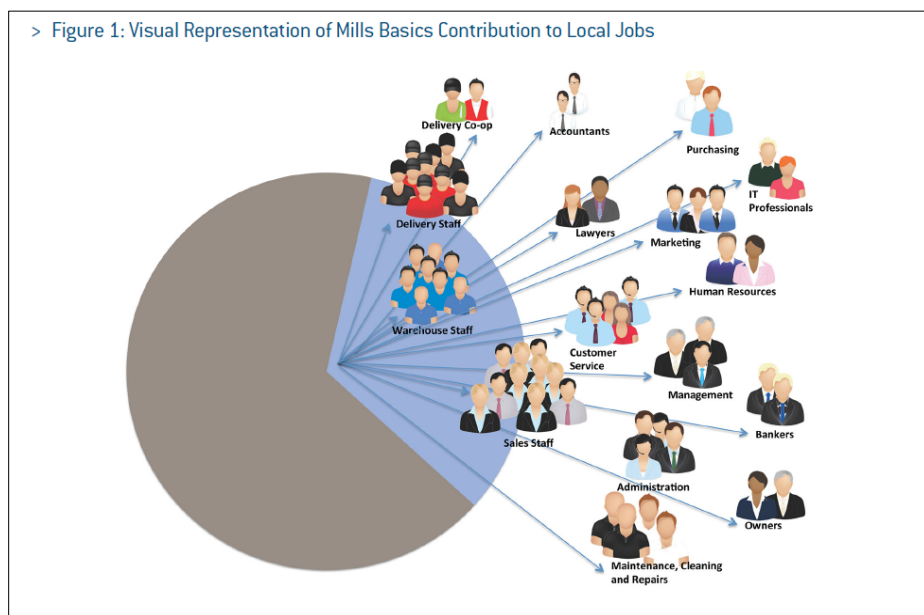


FIGURE 2 - Staples/ OfficeMax Contribution to Local Jobs (Delivery Staff, Warehouse Staff, Sales Staff, Maintenance, Cleaning and Repairs)

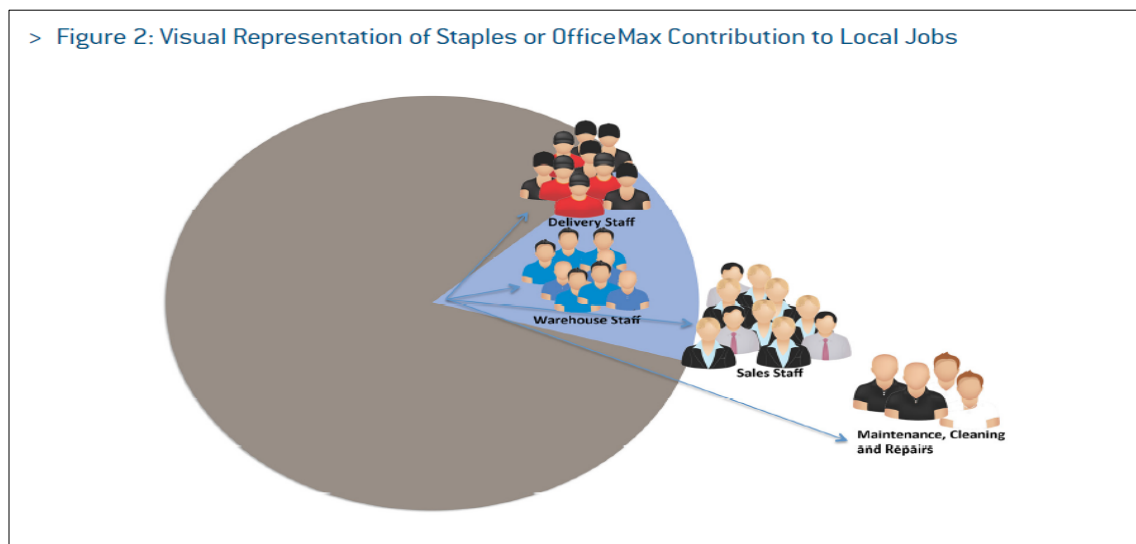




FIGURE 3 – Revenue Breakdown Back to the Local Economy

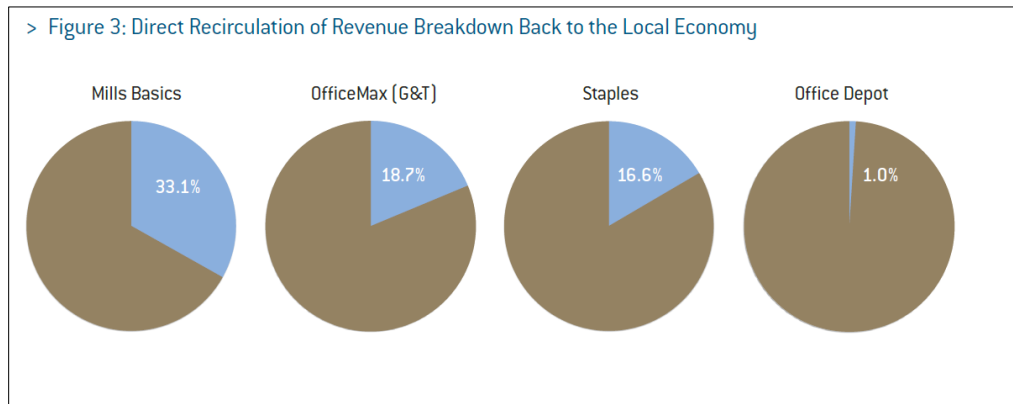
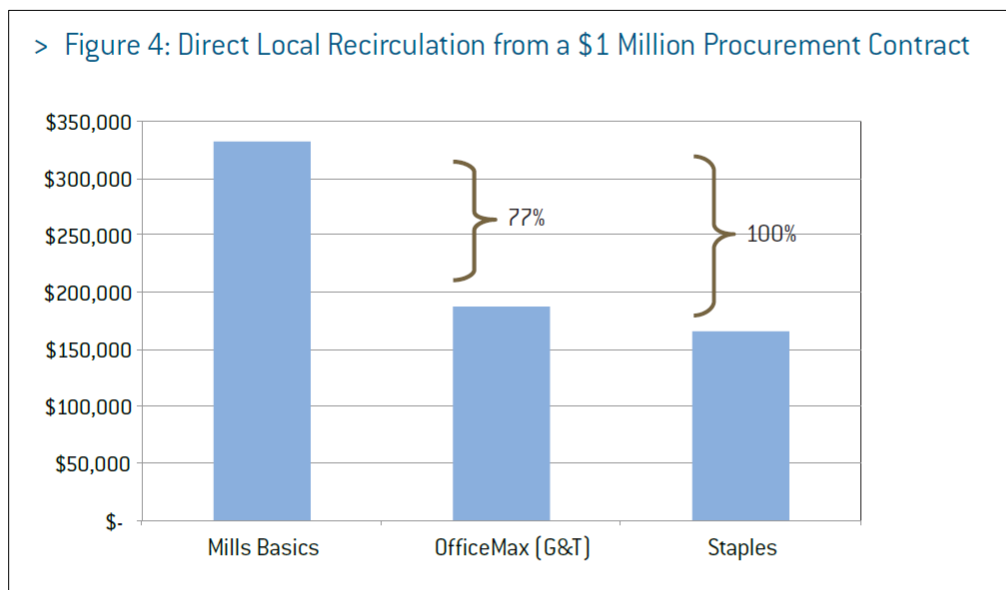


FIGURE 4 – Direct Recirculation from \$1 Million Procurement Contract



## Comprehensive Economic Trade Agreement

And that brings us to a third piece in Columbia Institute's Local Economy research stream: the Comprehensive Economic and Trade Agreement (CETA). CETA documents are yet to be ratified, and may yet be derailed by the EU Parliamentary

process where there are a number of parliamentarians who are concerned about investor-state dispute mechanism provisions in the agreement. Until it is ratified – the process must be signed off by Canadian Provinces and members of the European Union Parliament ---CETA does not apply to municipal procurement.

It is important to note that Canadian local and provincial government procurement is not included under NAFTA (North American Free Trade Agreement), FTAA (Free Trade Area of the Americas) or WTO (World Trade Organization) agreements.

The CETA agreement puts municipal procurement on the table for the first time in a major international agreement. Although Canada has signed on to several international trade agreements since the 1980s, the ability to use buy-local and buy-Canadian policies remained largely intact until short term 2010-2011 CUSPA – Canada-US Procurement Agreement --that included measures preventing local governments in Canada from giving Canadian or local contractors preference in many municipal construction contracts.

CETA has implications for all Canadian municipalities – and local purchasing. The scope local governments have in procurement contracts will be curtailed in a range of ways past certain thresholds under the terms of CETA.

European Union negotiating documents specifically name many Canadian communities, and public services as targets.

Canadian municipal governments collectively purchase an estimated \$98 billion per year in goods and services. By opening up this sector to foreign corporations, the CETA would make it harder to keep those dollars (and the jobs they generate) circulating in Canada's local, regional and national economies.

Canadian Communities and public service targeted in CETA include:

- AIRPORTS -- Toronto, Vancouver, Montreal, Calgary, Edmonton, Winnipeg, St. John, Regina, Saskatoon, Charlottetown, Quebec City, Prince George, Kelowna, Victoria, London, Ottawa, Thunder Bay, St. John's, Gander, Halifax, Charlottetown, Fredericton, Moncton, Yellowknife, Iqualait, Whitehorse
- PUBLIC TRANSIT – Toronto Transit, Metrolinx (Ontario), Ontario Transit, Societey des transports de Montreal (STM), Agence Metropolitaine des Transports (Quebec), Translink Vancouver, OC Transpo (Ottawa), Edmonton Transit System (ETS), Calgary

Transit, Winnipeg Transit, Saskatoon Transit, Regina Transit, Societe de Transport de Laval, Reseau do Transport de Longueuil, Via Rail, GO Transit

- ENERGY UTILITIES -- Ontario Power Generation, BC Hydro, EPCOR (Edmonton), Hydro Ottawa, Hydro Quebec, Newfoundland and Labrador Hydro, Hydro One (formerly Ontario Hydro), Manitoba Hydro – Electric Board, Toronto Hydro, Saskpower, Veridian, Aurora Hydro Connections Ltd., Hamilton Hydro, New Brunswick Power Corporation, Manitoba Hydro-Electric Board, Saskenergy
- PUBLIC PROCUREMENT of GOODS and SERVICES – Ottawa, Toronto, Hamilton, London, Richmond Hill, Kitchener, Vaughan, Brantford, Windsor, Markham, Greater Sudbury, Burlington, Oakville, Oshawa, St. Catherine's-Niagara, Sherbrooke, ThunderBay, Kingston, Barrie, Guelph, Montreal, Quebec, Longueuil, Gatineau, Trois Rivieres, Laval, Chicoutimi-Jonquiere, Calgary, Edmonton, Vancouver, Richmond, Coquitlam, Burnaby, Abbotsford, Victoria, Kelowna, Winnipeg, Regina, Saskatoon, Halifax, St. John's (Newfoundland)

CETA would be signed off in 2016 at the earliest.

## CONCLUSION

Procurement is a powerful tool for supporting local economies. In OECD countries, government spending on goods and services represents between eight and 25% of GDP. Here in Canada, local governments and school districts alone spend more than \$65 billion annually on the procurement of goods and services --- about 5.4% of the GDP. Where and how this money is spent has major effects on jobs, the environment, the viability of enterprises – and the well-being of communities.

Focusing more procurement dollars on local companies is a good strategy for economic development and jobs. It's a powerful tool for creating local jobs.

With files from:

**Made-In-BC Ferries – the Economic Benefits of Local Ship Procurement**

(March 2014) Columbia Institute -- Blair Redlin, David Fahey

**Buying Local – Tools for Forward-Thinking Institutions**

(December 2013) Columbia Institute – Robert Duffy and Anthony Pringle

**The Power of Purchasing – The Economic Impacts of Local Procurement**

(May 2013) Columbia Institute – Anthony Pringle

**Going Local – Inspirational stories of local government and local economy in British Columbia**

(February 2009) Columbia Institute – Andre Isakov

**Municipalities and the Comprehensive Economic and Trade Agreement (CETA)**

(2011, 2012) Columbia Institute