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Tariffs in an Evolving Marketplace: What's a Buyer to Do?

A PRACTICAL GUIDE FOR PUBLIC PROCUREMENT PROFESSIONALS

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INTRODUCTION

Tariffs in Our Procurement Reality

In today's global economy, tariffs are no longer abstract global policy tools debated in political circles. They are practical realities that shape markets and influence the way governments buy goods and services. For public procurement professionals, tariffs can mean unexpected price swings, disrupted contracts, and difficult conversations with suppliers.

This guide, based on expertise Mike Bevis shared in a recent NIGP webinar, is designed to help you respond with clarity and confidence. It translates complex issues into practical strategies you can apply directly in your work.

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SECTION 1

The Mechanics of Tariffs and Why They Matter

A tariff is a tax imposed on imported goods. Governments use tariffs to generate revenue, protect domestic industries, and/or influence international trade. Whatever the intent, the effects ripple quickly through supply chains. In the US only the Federal Government can impose tariffs; in other countries, such as Canada, Provinces may impose tariffs. Procurement professionals need to keep two facts front of mind:

1. **The importer pays the tariff.** Tariffs are imposed and collected at the border; they are then passed down the supply chain until they reach the consumer.
2. **Public agencies are not exempt.** While generally exempt from sales tax, government buyers ultimately absorb tariff-related costs as part of the purchase price.

Tariffs take several forms:

Ad Valorem:
A percentage of the item's value.

Compound:
A combination of ad valorem and specific.

Specific:
A fixed fee per unit.

Quota-based:
Rates increase when imports exceed a set volume.

Understanding how tariffs are structured helps you separate legitimate vendor claims from opportunistic ones.

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SECTION 2

How Tariffs Disrupt Contracts and Pricing

Tariffs represent a form of price risk. They can make prices unpredictable, complicate long-term planning, and invite attempts at profiteering. Common disruptions include:

- **Volatility:** Sudden price hikes when tariffs are introduced or raised.
- **Timing issues:** Vendors passing tariff increases onto goods bought before tariffs took effect.
- **Profiteering:** Inflated claims of tariff impacts without proof.
- **Fixed-price exposure:** Contracts without adjustment clauses may leave one party unfairly burdened.

A simple risk management framework can help design an approach:

1. **Identify** the risk – what part of your contract or supply line is exposed?
2. **Assess** the likelihood and potential impact.
3. **Respond** with strategies that balance flexibility and accountability.

> When no one can control the risk, buyers may need to assume it. But that does not mean giving vendors a blank check. The goal is to build contracts that appropriately allocate risk while discouraging abuse.

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SECTION 3

Strategies for Response — Contracts, Clauses, and Questions

You can't control tariffs but thoughtfully designed contracts are your best defense against tariff uncertainty. Strong language ensures fair treatment while giving both sides a roadmap when conditions change.

For **existing contracts**, review provisions such as:

- **Force Majeure:** Excuses performance if unforeseen events make delivery impossible.
- **Impossibility:** Voids the contract when fulfillment becomes impossible.
- **Adjustment clauses:** Allow changes in price tied to defined triggers.

For new contracts, build flexibility in from the start:

- Use indexes (such as OPIS for fuel or NYMEX for metals) that track real market conditions, which will include tariffs.
- Use adjustment clauses:
    - Define a basis for pricing, such as the market rate five days before bid submission.
    - Set triggers that determine when a price adjustment can be requested.
    - Establish caps to limit the size of adjustments.
    - Require documentation, such as importer receipts, before approving changes.

Fair contracts also account for the possibility of tariffs being reduced or eliminated. If prices can go up, they must also be able to come down.

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SECTION 4

Shared Risk and Ethical Guardrails

Procurement is not only about numbers. It is also about ethics and stewardship of public resources. When tariffs enter the picture, this responsibility becomes even more critical.

Protect your agency by:

- Demanding **credible evidence** of tariff-related cost increases.
- Requiring suppliers to **disclose cost structures** that show the true impact.
- **Auditing inventory practices** to ensure you are not paying new rates for pre-tariff stock.

In some cases, sharing the burden is the best option. Splitting tariff costs with a vendor above a certain threshold can prevent financial strain while preserving competition. Shared risk fosters transparency and builds stronger vendor relationships.

Remember: strategic sharing is not weakness. It is a disciplined approach that protects public interests while keeping supply chains stable and avoiding unnecessary risk premiums.

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SECTION 5

Looking Ahead

There is no one-size-fits-all solution to tariffs. They are shaped by global and domestic politics, global markets, and shifting policies. But procurement professionals can prepare by:

- Understanding how tariffs work and their impact on costs.
- Staying current on tariff data through the USITC Harmonized Tariff Schedule.
- Using professional networks such as NIGP NSite Communities to share strategies and lessons learned.
- Advocating for contract language and procurement policies that emphasize resilience and fairness.

Your role is more than managing transactions. You are a risk manager, a strategist, and a steward of public trust.

By approaching tariffs with foresight and discipline, you ensure your agency remains agile in a world of constant change.

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SECTION 5 (Cont.)

Closing Note

Tariffs will continue to shape procurement for years to come. They cannot be avoided, but they can be managed. With thoughtful contracts, ethical standards, and a commitment to fairness, procurement professionals can navigate this challenge with confidence.

You are not alone in this work. Across the profession, your peers face the same risks and share the same responsibility. By learning together and leading with integrity, we can turn tariff challenges into opportunities for smarter, stronger procurement.

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REFERENCES & RESOURCES

Understanding the Harmonized Tariff Schedule (HTS)

The United States International Trade Commission offers a free online course on how to use the Harmonized Tariff Schedule: https://learning.usitc.gov/hts-guide/index.html#/

Sample Form for Establishing the Tariff Basis

Heading/ Subheading	Statistical Suffix	Description	Unit of Measure	Amount per unit	% of Bid Price

NIGP Resources

- Competency Module: Contract Management and Performance (2 Day course, available Virtual Instructor-Led and On Demand)
- Competency Module: Risk Analysis (1/2 Day course, available Virtual Instructor-Led)
- Competency Module: Relationship Management: Internal Customers and Suppliers (2 Day course, available Virtual Instructor-Led)
- NIGP Blog Series: Legally Speaking

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