

Our cover story for the June 1999 issue of *Summit* was "Permafrost procurement: Nunavut starts from scratch." We thought it was a wonderful opportunity for the new territory to be able to implement procurement policies and practices beginning with a clean slate. Here we are 10 years later and procurement is a key function in the operation of the Government of Nunavut. Just as imagined 10 years ago, the geography, climate and peoples of the north have influenced the manner in which procurement is conducted.

# Cold case

## Procurement and logistics in the Arctic

by Mark McCulloch

NUNAVUT IS Canada's newest territory; carved off of the Northwest Territories, it came to being on April 1, 1999, as the result of the largest Aboriginal land claim settlement in Canadian history.

Nunavut is the largest of Canada's provinces or territories in terms of land mass and is

composed of 28 communities, none of which are connected by roads. Nunavut includes seven of Canada's twelve largest islands and two-thirds of the country's coastline. The harsh climate and geographical conditions make procurement and logistics challenging.



### Nunavut: Quick Facts

The territory of Nunavut (which means "our land") stretches some 1.9 million square kilometers and is nearly one-fifth the size of Canada.

**Capital city:** Iqaluit

**Population:** ~29,500 (Inuit are 85% of the total)

**Number of communities:** 28

**Average January temperature:** -30 degrees Celsius

**Average July temperature:** 15 degrees Celsius

**Length of winter:** 9 months

**Land:** Rocky tundra, stunted vegetation, located above the tree line, snow-covered most of the year.

The Government of Nunavut (GN) budget expenditures make-up a large part of the Nunavut economy.

The Procurement, Logistics and Contract Support Services Department – part of the Finance Section of Community and Government Services – is located in the capital city of Iqaluit. The department manages the procurement process for all goods, most services, and all logistics and air charter requirements. The range of commodities purchased covers all facets: large mobile equipment for airports, fire trucks, road graders, vehicles, snowmobiles, search and rescue equipment, food for correctional centers, hospital equipment, rifles, uniforms, fuel, alcohol for the Nunavut Liquor Corporation, and the list goes on.

The department also manages the procurement process for a variety of services and completes roughly 90 request for proposal (RFP) processes per year.

Typical services procured through RFP processes and standing offers include: emergency medical evacuation services, nursing services, rental properties, boarding home services for Inuit receiving medical attention in southern hospitals, sealift services, consulting of all kinds including insurance consulting, legal consulting, environmental studies, fuel procurement strategies (hedging) etc. The department manages over \$100 million in transactions per year.

### **Procurement, Logistics and Contract Support Services Department**

<b>1 Department Senior Manager</b>	<b>1 Contracts Advisor</b>
<b>1 Manager Logistics</b>	<b>1 Contracts Coordinator</b>
<b>2 Senior Procurement Officers</b>	<b>1 Administrative Officer</b>
<b>4 Procurement Officers</b>	<b>1 Contracted Expediter</b>

### **Procurement cycle and logistics**

The procurement cycle starts when a requisition is received from a GN program department and ends when the good or service is delivered. Government departments manage the procurement cycle so that the logistics and freight delivery costs can be minimized. All purchases over \$5,000 for goods and services, (including freight - air, sea, and rail) are competitively tendered. Where possible, large freight is shipped via sealift rather than air cargo. Air cargo is considerably more expensive (11 times). In emergency situations, large freight items have been airlifted via contracted Hercules cargo flights.

The Procurement, Logistics and Contract Support Services Division is considered to be a full service one-stop shop. The procurement and logistics team manages the service contracts and procurement process starting with the Canadian Coast Guard ice breaking services. The ice breakers open the waters annually around July 1<sup>st</sup>. This allows for the operation of sealift service suppliers out of the ports of Montreal, Churchill and Hay River. Goods are purchased and delivered to the appropriate port depending on which Nunavut community is receiving the goods. The goods are then prepared for the sealift voyage. Marshaling and packaging is the process whereby the freight is packaged and crated to ensure it can withstand the voyage. The department works with a contracted receiver / expediting service out of the port of Montreal. This part of the procurement cycle ensures that all ordered goods are received on time to make the voyage and that space is booked on the ships for the freight.

The procurement process for goods to be manufactured and delivered via sealift vessels must be initiated in December for delivery in July and August. This allows for

the tendering, manufacturing, marshaling and packaging and final delivery process. If the process is not carefully managed, freight can literally “miss the boat.”

Methods for goods delivery are limited and expensive. Goods must be delivered to Nunavut via air freight (from November to July) or through sealift on large ocean ice class vessels and barges (from mid July to September). You cannot drive to Nunavut and there are no roads connecting any of the communities.

It is critical that some goods, such as dangerous commodities (for example, chemicals for water treatment plants), be shipped by sealift. The air freight arrangements for some dangerous commodities can be complex. The majority of air freight delivered in the Arctic is delivered via

combi-flights, where the aircraft (737 jet service) is half freight and half passenger service. Some dangerous commodities classifications must be transported on flights that allow only the pilot and copilot. For example, during one season it was necessary to transport an emergency supply of chlorine gas to one community or they would have been without water. The logistics of the transportation included special dangerous goods transportation certificates, dedicated aircraft, cylinders flown via helicopter, in a specialized casket, in a sling under a helicopter. Delivery to the final destination required a contractor over the ice and snow via Bombardier snow vehicle, pulling a kamotiq (trailer type snow sled). In most of Canada, you would simply have the chemicals delivered via transport, placarded appropriately for dangerous goods.

**Cost of Living:** The cost to live in Nunavut can be up to 3 times that of southern Canada.

**Freight:** The delivery of freight to Nunavut communities is via large ocean going, ice class ships. Where possible, goods are sealifted, since air cargo costs are 11 times more expensive.

**Procurement Policies:**

Open Fair Transparent

Under \$5000 - sole source

Over \$5000 – public tender

Advertising – newspapers and GN web site ([www.gov.nu.ca](http://www.gov.nu.ca))

**Contracting Methods:**

- procurement cards
- tenders
- RFQ's
- RFT's
- RFP processes
- SOA's (Standing Offer Agreements)

**Logistics:**

- air freight
- sealift ports
  - Montreal
  - Churchill
  - Hay River
- rail – Winnipeg to Churchill
- truck – ground from the supplier's location to the port of departure

**Air Charters:**

The procurement and logistics department handles all GN air charter requirements.

Value: Est. \$6 million

Volume: 150 per year



## Economic development / business incentives

As part of the *Nunavut Land Claims Agreement*, the GN offers an economic development policy called Nunavummi Nangminiaqtunik Ikajuuti (NNI Policy).

This policy was developed to increase the opportunity for Nunavut businesses and Inuit owned firms to participate in government procurement activities and promote greater Inuit employment. All procurement exercises that are tendered or are over \$5,000 must follow this policy.

### Bid adjustments:

- **Nunavut Companies - 7%**
- **Inuit Owned Companies - 7%**
- **Local Companies - 7%**
- **Total Possible Adjustment: 21%**

### Labour requirements:

**Construction contracts contain minimum Inuit labour requirements.**

### NNI Policy:

<http://nni.gov.nu.ca/policy>

### Business Incentive Policy:

**For more information on Business Incentive Policies (BIP's), see *The Legal Edge*, Special Issue 78, March - April 2008. [www.neci-legaledge.com](http://www.neci-legaledge.com)**

This policy allows for bid adjustments to be applied to the price component for goods and services depending on the level of Nunavut based, Inuit ownership and local operations. The total possible bid adjustment is 21 percent. So, in a simple example: Suppose a proponent submits a tender price for goods that totals \$100,000. If they are eligible for the full adjustment, their bid is treated as if it were \$79,000. The adjustment is applied for price comparison purposes only, (the GN still pays the full price of \$100,000). For RFP processes, the price adjustment is applied along with an

additional 15 percent (as a minimum) evaluation points for Inuit labour and Inuit ownership.

The application of bid adjustments and labour incentives through the NNI Policy does make our procurement processes more complex; however, it is a strategic part of the procurement function in Nunavut.

## Contract reporting and transparency

An important component of procurement transparency is making public the results of tendering and contracting activities. At the GN, we report all contracts for goods, services, construction and leased properties that are over \$5,000. Government departments report all contracting activity to the procurement department for publication. These contracting activities are reported directly to the Nunavut Legislature.

## Strategic service delivery

The Procurement and Logistics Department is part of the GN Emergency Response Team. When an emergency occurs in one of the communities (hamlets) that threaten to cause an interruption in the basic critical public services, procurement works with emergency management to resolve issues and ensure timely problem resolution.

During these occurrences, we rely on the excellent partnerships we have developed with suppliers both in and to the Arctic.

### Public reporting

#### Contract Activity Report

<http://www.gov.nu.ca/english/business/acar.shtml>

#### Procurement Activity Report

<http://www.gov.nu.ca/english/business/apar.shtml>

#### Lease Activity Report

<http://public.govnu.ca/Leases.aspx>

### Global warming and the Northwest Passage

Global warming is having a visible effect in the Arctic and is of great concern as it will have an affect on the critical sealift services to the Arctic. Global warming and the changing ice conditions are affecting the shipping industry as multi-year ice (ice decades of years old) is breaking off and entering navigable waters. The opening (ice free) of the Northwest Passage during

summer months may allow for new shipping routes and greater choice of access to goods from a variety of southern suppliers. Shipping companies are choosing new routes and schedules.

From a procurement perspective, we will have to monitor and evaluate opportunities as they become available. There may or may not be cost savings.

**In the photo to the right, the Northwest Passage is outlined in red. Sealift companies will be able to serve Arctic communities in the Western Arctic from ports in Montreal and communities in the Eastern Arctic from Ports in Hay River and or Vancouver.**



### Rewarding work environment



**Nunavut Procurement and Logistics Team**

Working in the Arctic certainly provides many challenges and opportunities for procurement and logistics professionals. The geographical landscape necessitates careful planning of all activities. GN departments rely on the procurement and logistics function for strategic support in the delivery of programs and services to residents of Nunavut. Client departments expect and receive service and solutions. As procurement and logistics professionals, we benefit from the experience of working on a vast range of complex contracts and experience the satisfaction of witnessing the results delivered within the communities. 

Mark McCulloch is the manager Purchasing, Logistics, Contracts for the Government of Nunavut.

**Note: Check out the Nunavut facts on the next page.**

## Did you know...

### GENERAL INFORMATION

Nunavut means *our land* in the Inuit language of Inuktitut

Motto - Nunavut, our strength

Emblems : flower - Purple Saxifrage; bird - Rock Ptarmigan; animal - Canadian Inuit Dog

Nunavut became Canada's third territory on April 1, 1999.

It is the largest territory making up one fifth of the Canada's land mass and includes a mainland and several islands in the Arctic Ocean, including Baffin Island and Ellesmere Island.

There are 28 communities of which only three have more than 2,000 residents (Iqaluit, Rankin Inlet, and Arviat).

Nunavut's capital is Iqaluit and it became the capital on April 1, 1999.

Iqaluit (ee-kha-lu-eet) means *the place of many fish*

- largest community in Nunavut, pop. 6,184 (2006 Statistics Canada) and Canada's most northern capital. It is located on the mouth of Frobisher Bay, on the southeastern coast of Baffin Island
- winter activities : dog sledding, snowmobiling, ice-fishing
- formerly an airbase in the 1940s
- once called Frobisher Bay

Nunavut is the home to about 29,474 people. (2006 Statistics Canada)

The Inuit are the aboriginal people and make up 85 percent of the population.

Languages spoken: Inuktitut (the language of the Inuit) Inuinnaqtun, English and French.

On Baffin Island the Inuit still hunt, trap and fish for survival.

Everything is flown in or brought in by barge, so groceries are very expensive.

The land and water are frozen most of the year. In winter you can't tell where the land ends and the sea begins.

Icebergs break off from the glaciers and fall into the sea. Arctic waters are covered with ice floes.

There are mountains and tundra, where moss, tough grasses and small willow shrubs grow.

Ellesmere Island National Park Reserve, Canada's most northern park, is a polar desert with very little snowfall.

Wildlife includes muskoxen, caribou, polar bears, arctic foxes, whales and seals

### CLIMATE

Temperature in Iqaluit in January is -30°C and 15°C in July.

In Iqaluit there are nearly 24 hours of daylight per day in June. In December there are 6 hours of daylight per day.

Grise Fiord the northernmost community in Nunavut has daylight 24 hours each day for four months and 24 hours each day of darkness for four months.

Arctic blizzards are snowstorms with very cold strong winds.

Winter begins in September. The ground is usually snow covered until June.

July and August are the summer months. Temperatures reach 12°C on Baffin Island.

Spring is from March to June, with 18 hours each day of sunshine with temperatures ranging from -20°C to -1°C.

### INDUSTRY

Mining: Jericho diamond mine opened in 2006

Tourism: People come to fish, hike, camp, hunt, or just to see the wildlife.

Fishing : whitefish and Arctic char

Factories : packaging raw fish and meat

Inuit arts and crafts: drawing, printmaking, carving, soapstone sculptures, weaving

Greenhouse gardens: produce some vegetables.

### TRANSPORTATION

There are a few roads in Nunavut – a "highway" connects the mining community of Nanisivik to Arctic Bay.

Each community has a harbour and an airport. Iqaluit and Rankin Inlet have paved runways and are considered the gateways from the south. Items are brought in by barge or cargo plane.

The Canadian Coast Guard deploys icebreakers to the Arctic.

Ground transportation is limited to snowmobiles and all-terrain vehicles. Boats are used in the summer.

People drive four wheel drive vehicles (SUVs, jeeps, vans)