



Reference: RCS/C.5

TREASURY CIRCULAR MUN NO. 10/2018

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 MASTER RECORDS OFFICIAL: BUSINESS INFORMATION AND DATA MANAGEMENT
 THE HEAD OF DEPARTMENT: LOCAL GOVERNMENT
 THE CHIEF DIRECTOR: LOCAL GOVERNMENT BUDGET ANALYSIS – NATIONAL TREASURY (MR J HATTINGH)
 THE CHIEF DIRECTOR: MFMA IMPLEMENTATION – NATIONAL TREASURY (MR TV PILLAY)

RE: NATIONAL TREASURY DESIGNATED SECTOR INSTRUCTION NOTES ON THE INVITATION AND EVALUATION OF BIDS BASED ON A STIPULATED MINIMUM THRESHOLD FOR LOCAL PRODUCTION AND CONTENT

1. PURPOSE

- 1.1 The purpose of this Provincial Treasury Circular is to inform municipalities and municipal entities regarding the National Treasury's Instruction Note pertaining to the invitation and evaluation of bids relating to the designated sectors for local production and content.
- 1.2 The following National Treasury Instruction Note aims to regulate the environment within which an Accounting Officer procure in terms of the designated sectors as determined by the National Treasury.
- 1.3 The following Instruction Note is attached hereto marked **Annexure:**
 - a) Invitation and Evaluation of bids based on a stipulated minimum threshold for local production and content for **Large Bore spiral submerged ARC welded steel conveyance pipes: 500 MM to 3 500 MM (Steel Conveyance Pipes)** with an effective date of **18 February 2018**.
 - b) The previous Instruction Notes, dated 30 June 2016 and 27 July 2017 has been repealed.

2. REQUEST

- 2.1 The Accounting Officers of municipalities and municipal entities are hereby requested to disseminate the content of this Provincial Treasury Circular Mun No. 10/2018 to the attention of all relevant officials within their institutions.

3. NOTIFICATION TO THE AUDITOR-GENERAL

- 3.1 A copy of this Provincial Treasury Circular Mun will be forwarded to the Auditor-General for notification.

4. CONTACT INFORMATION

- 4.1 Any enquiries relating to local production and content and all required documentation to be submitted to the Department of Trade and Industry (**the dti**) as indicated in the Instruction Notes must be directed to:

For attention: Dr Tebogo Makube
The Department of Trade and Industry
Chief Director: Industrial Procurement
Industrial Development Division
Tel.: (012) 394 3927
Fax: (012) 394 4927
Cell: 082 481 8173
E-mail: TMakube@thedti.gov.za

- 4.2 Any further enquiries may also be directed to the Provincial Treasury:

MFMA Supply Chain Management Helpdesk
Western Cape Provincial Treasury
4 Dorp Street, Tower Block
Cape Town, 8000
Tel.: 021 483 3180
E-mail: SupplyChainManagement.HDMFMA@westerncape.gov.za

5. EFFECTIVE DATE

- 5.1 Accounting Officers of municipalities and municipal entities are requested to:
- a) Note the effective dates and utilise the annexed Instruction Note when implementing local production and content requirements.

Your co-operation will be highly appreciated.



MR RODNEY MOOLMAN
DIRECTOR: LOCAL GOVERNMENT SUPPLY CHAIN MANAGEMENT
DATE: 27 February 2018



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

TO: ACCOUNTING OFFICERS OF ALL NATIONAL DEPARTMENTS AND
CONSTITUTIONAL INSTITUTIONS

ACCOUNTING OFFICERS OF ALL MUNICIPALITIES AND MUNICIPAL
ENTITIES

ACCOUNTING AUTHORITIES OF ALL SCHEDULE 2 AND 3 PUBLIC
ENTITIES

HEAD OFFICIALS OF PROVINCIAL TREASURIES

**NATIONAL TREASURY DESIGNATED SECTORS CIRCULAR NUMBER 4 OF 2017/2018:
INVITATION AND EVALUATION OF BIDS BASED ON A STIPULATED MINIMUM
THRESHOLD FOR LOCAL PRODUCTION AND CONTENT FOR LARGE BORE SPIRAL
SUBMERGED ARC WELDED STEEL CONVEYANCE PIPES: 500MM TO 3500MM (STEEL
CONVEYANCE PIPES)**

1. PURPOSE

The purpose of this Circular is to provide information to accounting officers (AOs) and accounting authorities (AAs) in terms of which they may procure Steel Conveyance Pipes, which have been designated as a sector for local production and content.

2. BACKGROUND

- 2.1 The Preferential Procurement Regulations, 2017 ("the regulations") issued in terms of section 5 of the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) which came into effect on the of 1st April 2017, make provision for the Department of Trade and Industry (**the dti**) to designate sectors in line with national development and industrial policies for local production.
- 2.2 Regulation 8(1) and 8(2) of the Preferential Procurement Regulations 2017 prescribe that in the case of a designated sector, an organ of state must advertise the invitation to tender with a specific condition that only locally produced services or goods or locally manufactured goods with a stipulated minimum threshold for local production and content, will be considered
- 2.3 **the dti** has designated and determined the stipulated minimum threshold for large bore Steel Conveyance Pipes for local production and content.

3. SECTOR DESIGNATION

- 3.1 This Circular is applicable where an organ of state purchases directly from the manufacturer, in a case of turnkey projects (design, build, operate and/ or transfer) and

NATIONAL TREASURY DESIGNATED SECTORS CIRCULAR NUMBER 4 OF 2017/2018: INVITATION AND EVALUATION OF BIDS BASED ON A STIPULATED MINIMUM THRESHOLD FOR LOCAL PRODUCTION AND CONTENT FOR LARGE BORE SPIRAL SUBMERGED ARC WELDED STEEL CONVEYANCE PIPES: 500MM TO 3500MM (STEEL CONVEYANCE PIPES)

/or on purchases for maintenance and repairs where a contract is awarded for a project in which the designated products are part of the bill of quantities or materials to be utilized in the entire project.

- 3.2 A large bore spiral submerged arc welded steel conveyance pipe is a building material made from hot rolled steel sheets in coils which are basically an alloy of iron and carbon and are slit to the required width to suit the diameter of the required pipe. These slits are then submerged arc, spirally welded together to form the pipe. These pipes are widely used in the construction industry, and can also be found in a variety of manufacturing and industrial applications. These pipes are mainly used to convey liquids and gasses from one point to another and in the case of water supply; they convey the water from a bulk water supply such as dams to reservoirs. From reservoirs, the smaller electric resistance welded (ERW) pipes are used to transfer the water as municipal supply to commercial and residential buildings.
- 3.3 Pipe fittings or pipe specials refers to tees, bends, tapers, collars, flange adapters, blank flanges, expansion joints, mechanical joints, ring girders and similar accessories that are used as connections in a pipeline or tubing system that conveys liquid and/or solid materials. The work involves selecting and preparing pipe or tubing, joining it together by various means and the location and repair of leaks. Pipe fittings and specials are manufactured from a wide variety of materials including carbon steel, stainless steel, brass, copper, bronze and cast iron.
- 3.4 Flanges connect pipes, valves, pumps and other equipment to form a piping system. A flange can add support to a pipeline, close or block an existing pipeline, or they can be used for creating joints and attaching additional pieces to the system. Flange joints are made by bolting together two flanges with a *gasket* between them to provide a seal.
- 3.5 There is a distinction between bare, galvanized and lined and coated large bore spiral submerged arc welded steel conveyance pipe. The distinction similarly applies to pipe fittings and specials, excluding forged components.
 - 3.5.1. The bare large bore spiral submerged arc welded steel conveyance pipe as is implied by the name, has not been lined, coated or galvanized. It is thus more prone to corrosion (rusting) and abrasion (inside) of the pipe as well as cathodic erosion (outside) of the pipe by direct current (DC) underground;
 - 3.5.2. Galvanized large bore spiral submerged arc welded steel conveyance pipe is where the bare pipe is dipped in a hot zinc bath and both inside and outside surfaces are coated with zinc to avoid corrosion;
 - 3.5.3. Bare or galvanized pipes can be lined (inside) and coated (outside) steel pipes by applying protective coatings in the form of paints to protect them from corrosion. This pipe is typically used to convey water.
- 3.6 To ensure that local production and content is discharged on manufacturing activities, the following steel conveyance pipes must be included in bid invitations:

NATIONAL TREASURY DESIGNATED SECTORS CIRCULAR NUMBER 4 OF 2017/2018: INVITATION AND EVALUATION OF BIDS BASED ON A STIPULATED MINIMUM THRESHOLD FOR LOCAL PRODUCTION AND CONTENT FOR LARGE BORE SPIRAL SUBMERGED ARC WELDED STEEL CONVEYANCE PIPES: 500MM TO 3500MM (STEEL CONVEYANCE PIPES)

Manufacturing Process of Steel Conveyance Pipe	Size	% Local Content	Physical Properties
Spiral submerged arc welding	500mm - 3500mm	100%	Bare
Spiral submerged arc welding	500mm - 3500mm	100%	Galvanized
Spiral submerged arc welding	500mm - 3500mm	80%	Lined and coated
Spiral submerged arc welding	500mm - 3500mm	80%	Galvanized, lined and coated

Steel Pipe Fittings And Specials	Percentage Local Content
Bare	100%
Galvanized	100%
Lined and Coated	80%
Galvanized, Lined and Coated	80%
Forged fittings (Flanges)	100%

- 3.7 All primary steel products i.e. coils, sheets and plates used in the fabrication of steel conveyance pipes are included in this designation and must be manufactured and sourced locally. This is to support and sustain the existing local steelmaking capacity.
- 3.8 In the designation, imported input raw materials (i.e. zinc ingots and additives for the galvanising processes) used in the fabrication of the large bore spiral submerged arc welded steel conveyance pipe are deemed as locally manufactured input materials. These inputs should be imported in raw material form for further fabrication in South Africa.
- 3.9 The imported input raw materials, as specified in 3.8, used in the manufacture and fabrication of steel conveyance pipes will be deemed to have been sourced locally for the purposes of calculating local content.
- 3.10 Organs of state and bidders may contact **the dti** in instances where the stipulated minimum threshold for local content cannot be met in order for **the dti** to verify and in consultation with the AO/AA provide directives in this regard.
- 3.11 For further information, bidders and procuring state organs may contact the Metals Fabrication, Capital and Rail Transport Equipment unit within **the dti** at telephone 012 394 1356/3138/3522 or email Thandi Phele: TPhele@thedti.gov.za
- 3.12 Bid specifications for the designated products in this circular may be done in collaboration with **the dti**.

4. INVITATION OF BIDS FOR SPIRAL SUBMERGED ARC WELDED CONVEYANCE PIPES (500MM TO 3 500MM)

4.1 Bids in respect of Steel Conveyance Pipes must contain a specific bidding condition that:

4.1.1. Only locally manufactured Steel Conveyance Pipes with the stipulated minimum threshold for local production and content will be considered;

4.1.2. If the quantity of large bore spiral submerged arc welded steel conveyance pipes required cannot be wholly sourced from South African (SA) based manufacturers and/or at the designated local content threshold stipulated in paragraph 3.3 at any particular time, bidders and the procuring entities should obtain written approval from **the dti. the dti**, in consultation with the procuring organ of state, will grant approval on a case-by-case basis and will consider the following:

- required volumes in the particular bid;
- available collective SA industry manufacturing capacity at that time;
- delivery times;
- availability of input materials and components;
- technical considerations including operating conditions; and
- materials of construction

4.1.3. Bidders must clearly indicate in their bids the quantities to be supplied and the level of local content for each product.

4.2 AOs/AAs must stipulate in bid invitations that:

4.2.1. The exchange rate to be used for the calculation of local production and content must be the exchange rate published by the South African Reserve Bank (SARB) on the date of advertisement of the bid; and

4.2.2. Only the South African Bureau of Standards (SABS) approved technical specification number SATS 1286:2011 must be used to calculate local content

4.3 The local content (LC) expressed as a percentage of the bid price must be calculated in accordance with the following formula which must be disclosed in the bid documentation:

$$LC = \left[\frac{1 - x/y}{100} \right] * 100$$

Where

- x is the imported content in Rand
y is the bid price in Rand excluding value added tax (VAT)

(in the case of turnkey products/projects x and y will only refer to the value of spiral submerged arc welded conveyance pipes in the project)

NATIONAL TREASURY DESIGNATED SECTORS CIRCULAR NUMBER 4 OF 2017/2018: INVITATION AND EVALUATION OF BIDS BASED ON A STIPULATED MINIMUM THRESHOLD FOR LOCAL PRODUCTION AND CONTENT FOR LARGE BORE SPIRAL SUBMERGED ARC WELDED STEEL CONVEYANCE PIPES: 500MM TO 3500MM (STEEL CONVEYANCE PIPES)

Prices referred to in the determination of x must be converted to Rand (ZAR) by using the exchange rate published by the SARB on the date of advertisement of the bid.

- 4.4 **AOs/AAs must clearly stipulate in the bid documentation that the SABS approved technical specification number SATS 1286:2011 and the Guidance on the Calculation of Local Content together with the Local Content Declaration Templates [Annex C (Local Content Declaration: Summary Schedule), D (Imported Content Declaration: Supporting Schedule to Annex C) and E (Local Content Declaration: Supporting Schedule to Annex C)] are accessible to all potential bidders on the dti's official website <http://www.thedti.gov.za/industrialdevelopment/ip.jsp> at no cost.**
- 4.5 For the purpose of paragraphs 4.1, 4.2 and 4.3 above, Declaration Certificates for Local Production and Content (SBD/MBD 6.2) must form part of the bid documentation. The SBD 6.2 is for use by all national and provincial departments, constitutional institutions and public entities listed in schedules 2, 3A, 3B, 3C and 3D to the Public Finance Management Act whilst the MBD 6.2 is for use by all municipalities and municipal entities to which the Municipal Finance Management Act (MFMA) applies.
- 4.6 AOs/AAs must stipulate in the bid documentation that:
- (a) the Declaration Certificate for Local Production and Content (SBD / MBD 6.2) together with the Annex C (Local Content Declaration: Summary Schedule) must be completed, duly signed and submitted by the bidder at the closing date and time of the bid;
 - (b) the rates of exchange quoted by the bidder in paragraph 4.1 of the Declaration Certificate will be verified for accuracy.
- 4.7 **Market related prices**
- 4.7.1 AOs/AAs are required to ensure that reasonable or market related prices are secured for the large bore spiral submerged arc welded steel conveyance pipes being procured taking into account factors such as value for money and economies of scale.
- 4.8 Bid specifications for the sub-sectors referred to in paragraph 3 above may be done in collaboration with the dti. Contact information in this regard is provided in paragraph 8 below.
- 5. EVALUATION OF BIDS FOR STEEL CONVEYANCE PIPES**
- 5.1 An evaluation process in line with the Preferential Procurement Regulations, 2017 must be followed to evaluate the bids received.
- 6. EVALUATION OF BIDS BASED ON FUNCTIONALITY**
- 6.1 Whenever it is deemed necessary to evaluate bids on the basis of functionality, the

NATIONAL TREASURY DESIGNATED SECTORS CIRCULAR NUMBER 4 OF 2017/2018: INVITATION AND EVALUATION OF BIDS BASED ON A STIPULATED MINIMUM THRESHOLD FOR LOCAL PRODUCTION AND CONTENT FOR LARGE BORE SPIRAL SUBMERGED ARC WELDED STEEL CONVEYANCE PIPES: 500MM TO 3500MM (STEEL CONVEYANCE PIPES)

prescripts contained in regulation 5 of the Preferential Procurement Regulations, 2017 and paragraph 6 of the Implementation Guide must be followed.

7. POST AWARD AND REPORTING REQUIREMENTS

7.1. Once bids are awarded, **the dti** must be:

- (i) notified of all the successful bidders and the estimated value of the contracts; and
- (ii) provided with copies of the contracts, the SBD/MBD 6.2 Certificates together with the Declaration C submitted by the successful bidders.

7.2 The purpose of the requirements of paragraph 7.1 above is for **the dti** to among others conduct compliance audits with a view to monitor the implementation of the industrial development strategies.

7.3 Contractors must not be allowed to sub-contract in such a manner that the local production and content of the overall value of the contract is reduced to below the stipulated minimum threshold.

7.4. Where, after the award of a bid, contractors experience challenges in meeting the stipulated minimum threshold for local content, **the dti** must be informed accordingly in order for **the dti** to verify and in consultation with the AO/AA provide directives in this regard.

8. CONTACT INFORMATION

8.1 Any enquiries in respect of Local Production and Content and all documents to be submitted to the dti must be directed as follows:

The Department of Trade and Industry
Private Bag X84
Pretoria
0001

For Attention:

Dr Tebogo Makube
Chief Director: Industrial Procurement
Tel: (012) 394 3927
Fax: (012) 394 4927
EMAIL: TMakube@thedti.gov.za

9. APPLICABILITY

9.1 This circular applies to all national and provincial departments, constitutional institutions; public entities listed in schedules 2 and 3 to the PFMA, and, municipalities and municipal entities to which the MFMA apply.

NATIONAL TREASURY DESIGNATED SECTORS CIRCULAR NUMBER 4 OF 2017/2018: INVITATION AND EVALUATION OF BIDS BASED ON A STIPULATED MINIMUM THRESHOLD FOR LOCAL PRODUCTION AND CONTENT FOR LARGE BORE SPIRAL SUBMERGED ARC WELDED STEEL CONVEYANCE PIPES: 500MM TO 3500MM (STEEL CONVEYANCE PIPES)

10. DISSEMINATION OF INFORMATION CONTAINED IN THIS INSTRUCTION NOTE

- 10.1 Heads of provincial treasuries are requested to bring the contents of this circular to the attention of accounting officers and supply chain management officials of their respective provincial departments.
- 10.2 Accounting officers of national and provincial departments are requested to bring the contents of this circular to the attention of accounting authorities and the supply chain management officials of Schedule 3A and 3C public entities reporting to their respective executive authorities.
- 10.3 Accounting officers of municipalities and municipal entities are requested to bring the contents of this circular to the attention of the supply chain management officials of their municipalities and municipal entities.
- 10.4 Accounting authorities of Schedule 2, 3B and 3D public entities are requested to bring the contents of this circular to the attention of the supply chain management officials of their public entities.

11. NOTIFICATION TO THE AUDITOR-GENERAL

- 11.1 A copy of this Circular will be forwarded to the Auditor-General for notification.

12. REPEAL OF INSTRUCTION DATED 30 JUNE 2016

This Circular repeals Instruction on invitation and evaluation of bids based on a stipulated minimum threshold for local production and content for steel conveyance pipes dated 30 June 2016 and effective on 27 July 2016.

13. AUTHORITY FOR THIS INSTRUCTION NOTE AND EFFECTIVE DATE

- 13.1 This Circular is issued in terms of Regulation 8(1) and 8(2) of PPR, 2017 and takes effect on 18 February 2018


WILLIE MATHEBULA
ACTING CHIEF PROCUREMENT OFFICER
DATE: 22. 01. 2018