Western Cape Government
Provincial Treasury

Pauline Love-Fortuin
Provincial Government: Supply Chain Management
Email: PaulineJoy.Love-Fortuin@westerncape.gov.za
tel: +27 21 483 8224

Reference: RCS/C.6

TREASURY CIRCULAR NO. 7/2018

THE PREMIER
THE MINISTER OF ECONOMIC OPPORTUNITIES
THE MINISTER OF COMMUNITY SAFETY
THE MINISTER OF CULTURAL AFFAIRS AND SPORT
THE MINISTER OF EDUCATION
THE MINISTER OF FINANCE
THE MINISTER OF HEALTH
THE MINISTER OF HUMAN SETTLEMENTS
THE MINISTER OF LOCAL GOVERNMENT, ENVIRONMENTAL AFFAIRS AND DEVELOPMENT PLANNING
THE MINISTER OF SOCIAL DEVELOPMENT
THE MINISTER OF TRANSPORT AND PUBLIC WORKS
THE SPEAKER: PROVINCIAL PARLIAMENT
THE DEPUTY SPEAKER: PROVINCIAL PARLIAMENT
THE EXECUTIVE AUTHORITY: WESTERN CAPE GAMBLING AND RACING BOARD (MINISTER IH MEYER)
THE EXECUTIVE AUTHORITY: WESTERN CAPE NATURE CONSERVATION BOARD (MINISTER A BREDELL)
THE EXECUTIVE AUTHORITY: WESTERN CAPE INVESTMENTS AND TRADE PROMOTION AGENCY (MINISTER A WINDE)
THE EXECUTIVE AUTHORITY: SALDANHA BAY IDZ LICENCING COMPANY (MINISTER A WINDE)
THE EXECUTIVE AUTHORITY: WESTERN CAPE CULTURAL COMMISSION (MINISTER A MARAIS)
THE EXECUTIVE AUTHORITY: WESTERN CAPE LANGUAGE COMMITTEE (MINISTER A MARAIS)
THE EXECUTIVE AUTHORITY: WESTERN CAPE HERITAGE (MINISTER A MARAIS)
THE EXECUTIVE AUTHORITY: CASIDRA (MINISTER A WINDE)
THE EXECUTIVE AUTHORITY: WESTERN CAPE LIQUOR AUTHORITY (MINISTER D PLATO)

For information

THE ACCOUNTING OFFICER: VOTE 1: PREMIER (ADV B GERBER)
THE ACCOUNTING OFFICER: VOTE 2: PROVINCIAL PARLIAMENT (DR G LAWRENCE)
THE ACCOUNTING OFFICER: VOTE 3: PROVINCIAL TREASURY (MR Z HOOSAIN)
THE ACCOUNTING OFFICER: VOTE 4: COMMUNITY SAFETY (MR G MORRIS)
THE ACCOUNTING OFFICER: VOTE 5: EDUCATION (MR BK SCHREUDER)
THE ACCOUNTING OFFICER: VOTE 6: HEALTH (DR B ENGELBRECHT)
THE ACCOUNTING OFFICER: VOTE 7: SOCIAL DEVELOPMENT (DR R MACDONALD)
THE ACCOUNTING OFFICER: VOTE 8: HUMAN SETTLEMENTS (MR T MGULI)
THE ACCOUNTING OFFICER: VOTE 9: ENVIRONMENTAL AFFAIRS AND DEVELOPMENT PLANNING (MR P VAN ZYL)
THE ACCOUNTING OFFICER: VOTE 10: TRANSPORT AND PUBLIC WORKS (MS J GOOCH)
THE ACCOUNTING OFFICER: VOTE 11: AGRICULTURE (MS J ISAACS)
THE ACCOUNTING OFFICER: VOTE 12: ECONOMIC DEVELOPMENT AND TOURISM (MR S FOURIE)
THE ACCOUNTING OFFICER: VOTE 13: CULTURAL AFFAIRS AND SPORT (MR B WALTERS)
THE ACCOUNTING OFFICER: VOTE 14: LOCAL GOVERNMENT (MR G PAULSE)
THE CHIEF FINANCIAL OFFICER: VOTE 1: PREMIER (MR D BASSON)
THE CHIEF FINANCIAL OFFICER: VOTE 2: PROVINCIAL PARLIAMENT (MS N PETERSEN)
THE CHIEF FINANCIAL OFFICER: VOTE 3: PROVINCIAL TREASURY (MS U BRINK) (ACTING)
THE CHIEF FINANCIAL OFFICER: VOTE 4: COMMUNITY SAFETY (MR M FRIZLAR)
THE CHIEF FINANCIAL OFFICER: VOTE 5: EDUCATION (MR L ELY)
THE CHIEF FINANCIAL OFFICER: VOTE 6: HEALTH (MR A VAN NIEKERK)
THE CHIEF FINANCIAL OFFICER: VOTE 7: SOCIAL DEVELOPMENT (MR JO SMITH)
THE CHIEF FINANCIAL OFFICER: VOTE 8: HUMAN SETTLEMENTS (MR F DE WET)
THE CHIEF FINANCIAL OFFICER: VOTE 9: ENVIRONMENTAL AFFAIRS AND DEVELOPMENT PLANNING (MR T GILDENHUYS)
THE CHIEF FINANCIAL OFFICER: VOTE 10: TRANSPORT AND PUBLIC WORKS (ADV C SMITH)
THE CHIEF FINANCIAL OFFICER: VOTE 11: AGRICULTURE (MR F HUYSAMER)
THE CHIEF FINANCIAL OFFICER: VOTE 12: ECONOMIC DEVELOPMENT AND TOURISM (MS M ABRAHAMS)
THE CHIEF FINANCIAL OFFICER: VOTE 13: CULTURAL AFFAIRS AND SPORT (MS BG RUTGERS)
THE CHIEF FINANCIAL OFFICER: VOTE 14: LOCAL GOVERNMENT (MS B SEWLALL-SINGH)
THE ACCOUNTING AUTHORITY: WESTERN CAPE GAMBLING AND RACING BOARD (MR T ARENDSE)
THE ACCOUNTING AUTHORITY: WESTERN CAPE NATURE CONSERVATION BOARD (PROF G MANEVELDT)
THE ACCOUNTING AUTHORITY: WESTERN CAPE INVESTMENTS AND TRADE PROMOTION AGENCY (MR B FIGAJI)

THE ACCOUNTING AUTHORITY: SALDANHA BAY IDZ LICENCING COMPANY (DR J STEGMANN)
THE ACCOUNTING AUTHORITY: WESTERN CAPE CULTURAL COMMISSION (MS J MOLELEKI)
THE ACCOUNTING AUTHORITY: WESTERN CAPE LANGUAGE COMMITTEE (MS J MOLELEKI)
THE ACCOUNTING AUTHORITY: WESTERN CAPE HERITAGE (MR M DLAMUKA)
THE ACCOUNTING AUTHORITY: CASIDRA (DR L COETZEE)
THE ACCOUNTING AUTHORITY: WESTERN CAPE LIQUOR AUTHORITY (MR M JONES)
THE CHIEF EXECUTIVE OFFICER: WESTERN CAPE GAMBLING AND RACING BOARD (MR P ABRAHAMS)
THE CHIEF EXECUTIVE OFFICER: WESTERN CAPE NATURE CONSERVATION BOARD (DR R OMAR)
THE CHIEF EXECUTIVE OFFICER: WESTERN CAPE INVESTMENTS AND TRADE PROMOTION AGENCY (MR T HARRIS)
THE CHIEF EXECUTIVE OFFICER: SALDANHA BAY IDZ LICENCING COMPANY (MR D SOUTHGATE) (ACTING)
THE CHIEF EXECUTIVE OFFICER: CASIDRA (MR M BRINKHUIS)
THE CHIEF EXECUTIVE OFFICER: WESTERN CAPE LIQUOR AUTHORITY (DR L MDUNYELWA)
THE CHIEF FINANCIAL OFFICER: WESTERN CAPE GAMBLING AND RACING BOARD (MS Z SIWA)
THE CHIEF FINANCIAL OFFICER: WESTERN CAPE NATURE CONSERVATION BOARD (MR M BHAYAT)
THE CHIEF FINANCIAL OFFICER: WESTERN CAPE INVESTMENTS AND TRADE PROMOTION AGENCY (MS K ZAMA)
THE CHIEF FINANCIAL OFFICER: SALDANHA BAY IDZ LICENCING COMPANY (MR H BONESCHANS)
THE CHIEF FINANCIAL OFFICER: WESTERN CAPE CULTURAL COMMISSION (MS B RUTGERS)
THE CHIEF FINANCIAL OFFICER: WESTERN CAPE LANGUAGE COMMITTEE (MS B RUTGERS)
THE CHIEF FINANCIAL OFFICER: WESTERN CAPE HERITAGE (MS B RUTGERS)
THE CHIEF FINANCIAL OFFICER: CASIDRA (MR F VAN ZYL)
THE CHIEF FINANCIAL OFFICER: WESTERN CAPE LIQUOR AUTHORITY (MS V LETSWALO)
THE DIRECTOR: GOVERNMENT MOTOR TRANSPORT (MR R WIGGILL)
THE HEAD OFFICIAL: PROVINCIAL TREASURY (MR Z HOOSAIN)
THE DEPUTY DIRECTOR GENERAL: FISCAL AND ECONOMIC SERVICES (MR H MALILA)
THE DEPUTY DIRECTOR GENERAL: GOVERNANCE AND ASSET MANAGEMENT (MR IG SMITH) (ACTING)
THE CHIEF DIRECTOR: PUBLIC POLICY SERVICES (MS M KORSTEN)
THE CHIEF DIRECTOR: PROVINCIAL GOVERNMENT PUBLIC FINANCE (MS JD GANTANA)
THE CHIEF DIRECTOR: LOCAL GOVERNMENT PUBLIC FINANCE (MR M SIGABI) (ACTING)
THE CHIEF DIRECTOR: ASSET MANAGEMENT (MS N EBRAHIM) (ACTING)
THE CHIEF DIRECTOR: FINANCIAL GOVERNANCE AND ACCOUNTING (MR A HARDIEN)
THE CHIEF FINANCIAL OFFICER (MS U BRINK) (ACTING)
THE HEAD: OFFICE OF THE FINANCE MINISTRY (ADV E PRETORIUS)
THE DIRECTOR: BUSINESS INFORMATION AND DATA MANAGEMENT (MR PP PIENAAR)
THE DIRECTOR: FINANCIAL GOVERNANCE (MS N PALMER) (ACTING)
THE DIRECTOR: FISCAL POLICY (DR N NLEYA)
THE DIRECTOR: INFRASTRUCTURE (MR K LANGENHOVEN)
THE DIRECTOR: LOCAL GOVERNMENT ACCOUNTING (MR L BRINDERS)
THE DIRECTOR: LOCAL GOVERNMENT BUDGET OFFICE (MR ML BOOYSEN)
THE DIRECTOR: LOCAL GOVERNMENT REVENUE AND EXPENDITURE (GROUP ONE) (MR A DYAKALA)
THE DIRECTOR: LOCAL GOVERNMENT REVENUE AND EXPENDITURE (GROUP TWO) (MR M SIGABI)
THE DIRECTOR: LOCAL GOVERNMENT SUPPLY CHAIN MANAGEMENT (MR R MOOLMAN)
THE DIRECTOR: PROVINCIAL GOVERNMENT ACCOUNTING (MR A REDDY)
THE DIRECTOR: PROVINCIAL GOVERNMENT BUDGET OFFICE (MS RH SLINGER)
THE DIRECTOR: PROVINCIAL GOVERNMENT FINANCE (EXPENDITURE MANAGEMENT) (MS A PICK)
THE DIRECTOR: PROVINCIAL GOVERNMENT SUPPLY CHAIN MANAGEMENT (MS T RAKIEP) (ACTING)
THE DIRECTOR: STRATEGIC AND OPERATIONAL MANAGEMENT SUPPORT (MS A SMIT)
THE DIRECTOR: SUPPORTING AND INTERLINKED FINANCIAL SYSTEMS (MR A MAZOMBA)
THE PROVINCIAL AUDITOR
MASTER RECORDS OFFICIAL: BUSINESS INFORMATION AND DATA MANAGEMENT
THE DEPUTY DIRECTOR GENERAL: CORPORATE ASSURANCE, DEPARTMENT OF THE PREMIER (MS H ROBSON)

NATIONAL TREASURY DESIGNATED SECTORS INSTRUCTION NOTE NUMBER 15 OF 2016/2017

INVITATION AND EVALUATION OF BIDS BASED ON A STIPULATED MINIMUM THRESHOLD OF CONVERSION PROCESSES FOR LOCAL PRODUCTION AND CONTENT FOR STEEL PRODUCTS AND COMPONENTS FOR CONSTRUCTION

PURPOSE

1.1 The purpose of this communique is to disseminate the attached National Treasury Designated Sector Instruction Note (IN) which aims to regulate the environment within which an accounting officer or accounting authority procure in terms of the designated sectors as determined by the National Treasury.

1.2 The Instruction is attached hereto marked "Annexure A" - invitation and evaluation of bids based on a stipulated minimum threshold of conversion processes for local production and content for steel products and components for construction.

1.3 The Instruction is issued in terms of Regulation 8(1) of the Preferential Procurement Regulations, 2017.

2. BACKGROUND

2.1 The above-mentioned IN was issued on 13 January 2017 with an effective date of 1 February 2017. It is noted that the time between issuance and the effective date was not sufficient for the Western Cape Government (WCG) to conclude an impact assessment on the requirements and subsequently determine the way forward for implementation. There was further no consultation process embarked upon by the National Treasury prior to the issuance of the Instruction Note.

2.2 Upon issuance, the Provincial Treasury had identified risks and concerns with regards to the practical implementation of the Instruction Note as well as the readiness of the market to give effect to the requirements. The following process was undertaken by the Provincial Treasury to determine a way forward for implementation:

a. Comments solicited from Supply Chain Management Heads and consolidated by the Provincial Treasury (attached hereto marked "Annexure B") which was referred to the National Treasury and the Department of Trade and Industry (**the dti**) for a response;

b. Clarity requested from **the dti** on certain provisions in the IN; and

c. **the dti** acknowledged receipt of the comments received and further indicated that a meeting with the South African Institute of Steel Construction will be arranged to which the WCG will be invited. To date the meeting has not been forthcoming.

2.3 The Western Cape Government identified various risks that could impact on governance and administrative functions. The gravity of these risks necessitated PT to assess the IN and to find ways to mitigate such risks. Based on the practical implementation challenges and risks identified by institutions in terms of service delivery, the following decisions have been made:

a. The WCG will implement the requirements to the extent that they are rational, take into account the needs and requirements of the WCG from a cost effectiveness perspective, adds value and improve efficiency and/or governance;

b. WCG will not apply the IN when procuring turnkey projects (design, build, operate and/ or transfer) and maintenance and repairs as there are no implementation guidelines for institutions to utilise when procuring these services;

c. the requirements of the IN must be adhered to if an Institution runs an in-house repairs and maintenance section; and

d. the requirements of the IN should further be adhered to if an Institution purchases directly from a manufacturer or supplier.

2.4 Given the abovementioned context, should institutions receive any audit related queries in respect of the implementation of the IN, such queries must be responded to in consultation with the Provincial Treasury.

3. REQUEST

3.1 Accounting officers/accounting authorities are requested to:

a. Note the effective dates and utilise the annexed Instruction Note when implementing the local production and content requirements; and

b. Ensure that the content of the IN is brought to the attention of all relevant officials within their Institution and Schedule 3A and 3C public entities reporting to their executive authorities.

Rakiep

MS TASNEEM RAKIEP
ACTING DIRECTOR: PROVINCIAL GOVERNMENT: SUPPLY CHAIN MANAGEMENT
DATE: 12/03/2018

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 INSTRUCTION NUMBER 15 OF 2016/2017.

INVITATION AND EVALUATION OF BIDS BASED ON A STIPULATED MINIMUM THRESHOLD OF CONVERSION PROCESSES FOR LOCAL PRODUCTION AND CONTENT FOR STEEL PRODUCTS AND COMPONENTS FOR CONSTRUCTION.

1. PURPOSE

1.1 The purpose of this instruction note is to regulate the environment within which accounting officers (AOs) and accounting authorities (AAs) may procure steel products and components for construction which have been designated as a sector for local production and content.

2. BACKGROUND

2.1 The Preferential Procurement Regulations, 2011 ("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 7 December 2011, make provision for the Department of Trade and Industry (**the dti**) to designate sectors in line with the national development and industrial policies for local production.

2.2 Regulation 9 (1) of the Regulations prescribes that, in the case of designated sectors, wherein the award of bids for local production and content is of critical importance, such bids must be advertised with the specific bidding condition that only locally produced goods, services or works 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 steel products and components for construction for the state procurement for local production and content.

3. PRODUCT DESIGNATION

3.1 In this instruction note, steel products and components for construction have been recommended for designation

3.2 Steel products and components for construction refer to:

3.2.1 **Fabricated structural steel** which includes a wide range of free standing shapes, cross sections and sizes of steel metal pieces produced through a variety of operations according to a specific design, certain standards of chemical composition and mechanical properties. The fabricated components are produced from various primary and downstream steel products, including: channels (parallel and taper flanges); I-beams and H-beams; angles (equal and unequal); bars (flat; square and round); reinforcing bar and fasteners. The fabrication comprises of detailing (cutting, rolling, drilling, bending, grinding and machining), fitting, welding and/or, fastening, surface preparation (cleaning) and surface protection (coating) of steel components for application in an assortment structures.

3.2.2 In addition to the processes in 3.2.1; **joining components** such as gussets, cleats, stiffeners, splices, plates, cranks, kinks, doglegs, holes, girders, spacers, tabs, brackets, fasteners (bolts, nuts, rivets and nails) are used for connection and assembly of structures.

3.2.3 **Frames** refer to all rigid structures that surround doors, windows, patio, showers and built-in-cupboards made of steel.

3.2.4 **Roof Cladding** refers to a layer of covering applied to a roof in order to provide both weather protection and aesthetic appeal which consist of large sheets of material, or many small, overlapping units made of steel.

3.2.4.1 **Vertical cladding** refers to the protective or insulating layer fixed to the outside of a building or another structure for aesthetic appeal made of steel.

3.2.5 **Wire Products** refers to all downstream wire products manufactured from hot-rolled ferrous wire rod coils, including drawn wire – carbon/alloy steel (galvanised or plain), articles of wire – forged, wire rope/strand, fabric reinforcing, all fencing wire (barbed, welded mesh, hexagonal wire netting, diamond mesh), welding electrodes nails/tacks, chains, gabions, springs and screws.

3.2.6 **Fasteners** refer to hardware products that mechanically join or affix two or more steel components.

3.2.7 **Ducting and Structural Pipework** refers to non-conveyance tubing fabricated from steel sheeting and plate with structural supports.

3.2.8 **Gutters, downpipes & launders** refers to drainage systems made from sheeting associated with roofing

3.2.9 **Primary steel products** which includes flat and long products which are converted into value-added steel products in 3.2.1 to 3.2.8 as well as for reinforcement of buildings and structures.

3.3 Table 1 provides the stipulated minimum threshold for local content and production for steel products and components for construction (as described in 3.2)

Table 1a: Minimum local content for Steel Value-added Products

Steel Construction Materials	Components	Local Content Threshold
Fabricated Structural Steel	Latticed steelwork, reinforcement steel, columns, beams, plate girders, rafters, bracing, cladding supports, stair stringers & treads, ladders, steel flooring, floor grating, handrailing and balustrading, scaffolding, ducting, gutters, launders, downpipes and trusses	100%
Joining/Connecting Components	Gussets, cleats, stiffeners, splices, cranks, kinks, doglegs, spacers, tabs, brackets	100%
Frames	Doors and Windows	100%
Roof and Cladding	Bare steel cladding, galvanised steel cladding, colour coated cladding	100%
Fasteners	Bolts, nuts, rivets and nails	100%
Wire Products	All fencing products: all barbed wire and mesh fencing, fabric/mesh reinforcing, gabions, wire rope/strand and chains, welding electrodes, nails/tacks, springs and screws	100%
Ducting and Structural Pipework	Non-conveyance tubing fabricated from steel sheeting and plate with structural supports	100%
Gutters, downpipes & launders	Fabricated materials made from sheeting associated with roof drainage systems	100%

Table 1b: Minimum local content for Primary Steel Products

Steel Construction Materials	Local Content Threshold
Plates (>4.5mm thick and supplied in flat pieces)	100%
Sheets (<4.5mm thick and supplied in coils)	100%
Galvanised and Colour Coated Coils	100%
Wire Rod and Drawn Wire	100%
Sections (Channels; Angles, I-Beams and H-Beams)	100%
Reinforcing bars	100%

3.4 In the designation, imported inputs raw materials (i.e. zinc and additives in the surface preparation and protection processes (cleaning and coating/galvanising)) used in the production of steel products and components for construction are deemed as locally manufactured input materials.

3.5 The imported input raw materials, as specified in 3.4, used in the manufacture and production of steel products and components for construction will be deemed to have been sourced locally for the purposes of calculating local content.

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

3.6 Organs of state 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.

3.7 For further information, bidders and procuring state organs may contact the following units with **the dti**: Metals Fabrication, Capital and Rail Transport Equipment at telephone 012 394 1356 or email Thandi Phele at TPhele@thedti.gov.za and Primary Minerals processing & Construction at telephone 012 394 5157 or email Tapiwa Samanga at TSamanga@thedti.gov.za.

3.8 Bid specifications for the designated products in this instruction note may be done in collaboration with **the dti**.

4. INVITATION OF BIDS FOR STEEL PRODUCTS AND COMPONENTS

4.1 Bids in respect of steel products and components for construction must contain a specific bidding condition which states that:

4.1.1. Only locally produced or locally manufactured steel products and components for construction with a stipulated minimum threshold for local production and content will be considered.

4.1.2. If the quantity of steel products and components for construction 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 exemption from **the dti. the dti**, in consultation with the procuring organ of state and the local industry, will consider the exemption applications 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;
- materials of construction; and
- security of supply

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) at 12:00 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:

$LC = [1 - x/y] * 100$

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 steel products and components in the project)

Prices referred to in the determination of x must be converted to Rand (ZAR) by using the exchange rate published by the SARB at 12:00 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 /industrial development/ip.jsp at no cost.**

4.5 For the purpose of paragraphs 4.1, 4.2 and 4.3 above, the attached 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) apply.

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) bidders must submit a certificate from a registered auditor confirming that the Local Content Declaration Templates have been audited and certified as correct. (See paragraph 5 of the Declaration Certificate); and

(c) the rates of exchange quoted by the bidder in paragraph 4.1 of the Declaration Certificate will be verified for accuracy.

4.7 **Benchmark / market related prices**

4.7.1. AOs/AAs are required to ensure that reasonable or market related prices are secured for steel products and components for construction being procured taking into account factors such as benchmark prices, value for money and economies of scale.

4.7.2. For this purpose, AOs/AAs may approach **the dti** for assistance, where possible, with benchmark prices for steel products and components for construction that have been designated for local production and content. **The dti** will be in a position to provide price references for the different products that have been designated for local production and content.

4.8 Bid specifications for the sub-sectors referred to in paragraph 3 above and the price benchmarking referred to in paragraph 4.7 above must be done in collaboration with the dti. Contact information in this regard is provided in paragraph 8 below.

5. EVALUATION OF BIDS FOR STEEL PRODUCTS AND COMPONENTS FOR CONSTRUCTION

5.1 A two stage evaluation process may be followed to evaluate the bids received.

5.1.1. **First stage: Evaluation in terms of the stipulated minimum threshold for local production and content**

5.1.1.1 Bids must be evaluated in terms of the minimum threshold stipulated in the bid documents.

5.1.1.2 The declaration made by the bidder in the Declaration Certificate for Local Content (SBD / MBD 6.2) and Annex C (Local Content Declaration: Summary Schedule) must be used for this purpose. If the bid is for more than one product, the local content percentages for each product contained in Declaration C must be used.

5.1.1.3 The amendment of the stipulated minimum threshold for local production and content is not allowed.

5.1.1.4 A bid may be disqualified if:

- The bidder fails to achieve the stipulated minimum threshold for local production and content unless written exemption has been granted to the bidder by **the dti** to bid at a lower local content level; and

- The Declaration Certificate for Local Content (SBD / MBD 6.2), the Annex C (Local Content Declaration: Summary Schedule) and the registered auditors' certificate referred to in paragraphs 4.6 (a) and (b) are not submitted as part of the bid documentation.

5.1.1.5 AOs / AAs must verify the accuracy of the rates of exchange quoted by the bidder in paragraph 4.1 of the Declaration Certificate for Local Content (SBD / MBD 6.2)

5.1.2 Second stage: Evaluation in terms of the 80/20 or 90/10 preference point systems

5.1.2.1 Only bids that achieve the minimum stipulated threshold for local production and content may be evaluated further. Unless otherwise exempted by the Minister of Finance, the evaluation must be done in accordance with the 80/20 or 90/10 preference point systems prescribed in Preferential Procurement Regulations, 2011.

5.1.2.2 AOs/AAs must ensure that contracts for steel products and components are awarded at prices that are market related taking into account, among others, the dti's pre-determined benchmark prices, value for money and economies of scale.

5.1.2.3 Where appropriate, prices may be negotiated with short listed or preferred bidders. Such negotiations must not prejudice any other bidders.

6. EVALUATION OF BIDS BASED ON FUNCTIONALITY

6.1 Whenever it is deemed necessary to evaluate bids on the basis of functionality, the prescripts contained in regulation 4 of the Preferential Procurement Regulations, 2011 and paragraphs 6 and 11 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 may 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 minimum threshold as stipulated in regulation 9 of the Preferential Procurement Regulations, 2011.

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 instruction 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.

10. DISSEMINATION OF INFORMATION CONTAINED IN THIS INSTRUCTION NOTE

10.1 Heads of Provincial Treasuries are requested to bring the contents of this Instruction 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 Instruction 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 Instruction 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 Instruction 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 Instruction Note will be forwarded to the Auditor-General for notification.

12. AUTHORITY FOR THIS INSTRUCTION NOTE AND EFFECTIVE DATE

12.1 This Instruction is issued in terms of Regulation 9(2) of the Preferential Procurement Regulations, 2011 and takes effect on the date of issuance.

12.2 This Instruction takes effect on 1 February 2017.

SCHALK HUMAN
ACTING CHIEF PROCUREMENT OFFICER
DATE: 13·01·2017

WCG's COMMENTS

NT Instruction 15 of 2016/17: Local Production and Content for Steel Products and Components for Construction

PARAGRAPH	CONTENT	COMMENT
3.4	Imported inputs raw material (i.e zinc and additives…) used in production of steel products and components for construction are deemed as local…	This proviso does not exist in the previous NT Instructions 5 and 6 of 2016/17 (same requirement but for the Furniture and Electrical Cables sector where primary steel is required to be 100% local. It is assumed that this proviso does not apply to aforementioned sectors – NT to confirm.
3.6	Organs of state may contact the dti to verify stipulated minimum threshold…	This is understood to be at evaluation phase when no bids comply with the LC requirement. The verification and consultation process referred to poses a risk of validity of bids expiring and delays in the procurement process. Confirmation of a reasonable turn-around time for feedback from the dti is required.
4.1.2	Requesting exemption by the **bidder** as well as the **procuring entity**	Previous instructions only make provision for request for exemption by bidders. Can it be assumed that procuring entities may also request exemption per case on all other sectors? In most instances replacement of steel components is subject to compatibility, e.g. repairs to a section of a roof must match the cladding - similar/same to the existing one. It is understood that in such instances the Department may request for exemption as provided for in this paragraph.
4.6 (b)	Bidders must submit a certificate from a registered auditor confirming that the local	A revised SBD6.2 document was issued by NT during 2015, in which this requirement was removed from the

	content declaration has been audited and certified as correct.	SBD6.2 as well as its Annexure C. In the interest of consistency, NT to remove this requirement for this sector as well.
Table 1 A and B	100% local content threshold	The spirit of the PPPFA is fully supported, but the 100% threshold is extreme and it requires further consultation and market research.
3.6	Organs of state 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.	The organ of state may only realise upon bid closure that the minimum threshold for local content cannot be met. Giving effect to latter part of the sentence may delay the award process.
3.7	For further information, bidders and procuring state organs may contact the following units with the dti: Metals Fabrication, Capital and Rail Transport Equipment at telephone 012 394 1356 or email Thandi Phele at TPhele@thedti.gov.za and Primary Minerals processing & Construction at telephone 012 394 5157 or email Tapiwa Samanga at TSamanga@thedti.gov.za.	Issue a WCBD6.2 per sector which include the relevant contract details and exemption process.
3.8	Bid specifications for the designated products in this instruction note may be done in collaboration with the dti.	Is the dti in a position to provide assistance in this regard?
4.3	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	Further clarity sought on this requirement.

	and y will only refer to the value of steel products and components in the project)	
4.7	For this purpose, AOs/AAs may approach the dti for assistance, where possible, with benchmark prices for steel products and components for construction that have been designated for local production and content. The dti will be in a position to provide price references for the different products that have been designated for local production and content.	Is the dti in a position to provide assistance with benchmark prices?
5.1.1.3	The amendment of the stipulated minimum threshold for local production and content is not allowed.	Is this not in contradictory with the process mentioned in 3.6 and the exemption process mentioned 4.1.2.?
5.1.2.1	Preferential Procurement Regulations, 2011.	Should be changed to refer to the Preferential Procurement Regulations, 2017.
6.1	Whenever it is deemed necessary to evaluate bids on the basis of functionality, the prescripts contained in regulation 4 of the Preferential Procurement Regulations, 2011 and paragraphs 6 and 11 of the Implementation Guide must be followed.	Should be changed to refer to Regulation 5 of the Preferential Procurement Regulations, 2017 and paragraphs 9 and 13 of the Implementation Guide must be followed.
In general	in general	LC instruction notes with a 100% LC requirement is counterproductive to free/fair trade and it could/will increase the cost of construction in the public sector.
In general	in general	One requires a more subtle approach than just making it a blanket 100% requirement, for instance there are cladding and fastening products that are not manufactured in SA, but are excellent products.
In general	in general	It will make the SA industries less competitive for work across our borders as they will be used to a protected

		environment, without real competition.
In general	in general	For many of the product types proposed there is only one or perhaps two local manufacturers; meaning that we will be at the mercy of monopolies or similar. South Africans are already suffering under our current monopolistic environment; with this type of legislative requirements we are aiding the monopolistic grip companies have/will have on procurement and SA as a whole.
in general	in general	It is recommended that NT commission detailed (independent) research on the steel industry/market in each Province to determine the feasibility of specifying a 100% local content threshold.
in general	in general	The percentage specified must be appropriate contextually, feasible and not have a negative impact on infrastructure delivery i.e. cost, time and quality.
in general	in general	For example, some of the perceived risks that need to be mitigated or answered with thorough consultation and evidence-based research include: Local economic factors that could impact on the delivery of infrastructure projects - • Time - Lead-in times to increase (due to limited supply of steel products from local sources / manufacturers)? • Cost increases (due to limited number of steel manufacturers and monopolies etc.)? • Location – regional influence, site location and logistics (rural site versus metropolitan sites)?

		• Quality – all specifications for steel met by local manufacturers?
in general	in general	It should further include: Macro-economic factors that influence steel industry – how are these to be managed by specifying a local content %? • Currency fluctuations (Rand vs. Dollar)? • Commodity / raw material input costs? • Global economic growth forecasts? • Trade import tariffs? • South Africa is a net importer of steel products (demand outweighs supply)?
in general	in general	It is highly recommended that the implementing agent- in this case Department of Transport and Public Works), reputable building contractors and PSP Quantity surveying firms in the Western Cape are consulted to gauge the market implications of NT’s proposal to specify a local content threshold at 100%.
in general	in general	Refer to an article on The Steel and Engineering Industries Federation of Southern Africa (SEIFSA) website titled: “Crossroads: The State of the Metals and Engineering Sector” by Henk Langenhoven (SEIFSA’s former chief economist): “It cannot be over-emphasised that each sub-industry in the metals and engineering sector has unique circumstances and has to be treated individually and policy designed to support growing and successful entities and mitigate against the constraints each may experience”. Article attached for ease of reference.

in general	in general	In respect of the Invitation and Evaluation of Bids based on a stipulated minimum threshold of conversion processes for Local Production and Content for Steel Products and Components for Construction, the view is that this is not applicable on the departments as it procures contractors and not the relevant products as contained in the Instruction. The NT/dti has not given clear guidance in terms of inviting bids in respect of the supply and delivery of goods and services. The issued instruction notes and WCBD 6.2 only caters for the procurement of goods.
in general	in general	In respect of the Crossroads article (Attached), our comments are only in respect of the compliance requirements. If the Instruction is intended to reform the industry then the instruction need to somehow deal with economic reform and take into account the idiosyncrasies of the industry and its various nuances to impact on economic growth within the industry.

It should further be noted that all issued Instruction Notes should be repealed and replaced to reflect the Preferential Procurement Regulations, 2017 and implementation guide.

Crossroads: The State of the Metals and Engineering Sector

Sub-industries in the metals and engineering sector should be treated differently and relevant policy interventions designed to protect them, argues Henk Langenhoven.

There is no doubt that the metals and engineering sector in South Africa is at a crossroad. Unfortunately, the debate about what needs to be done focuses almost entirely on tariff protection and whether upstream or downstream industries will benefit or harmed by this move. This makes the perspective a type of zero-sum game analysis.

We are locked in this zero-sum-game scenario because we are asking the wrong questions. The reality is that the sector is diverse. It does not consist individually of the basic ferrous industry and the rest or downstream industries. Analysis should be focused on the dynamics of the component sub-industries, with sustainable solutions devised that will revive them individually. In time, this holistic approach would, in turn, put the sector as a whole on a growth trajectory.

To break it down, the overall South African market for metals and engineering products consists of production by local producers, minus their exports to the world, plus imports into the country. This aggregate market kept on growing and peaked in 2013 – higher than in 2008. It has since fluctuated somewhat, but is estimated to be at virtually the same level as in 2008.

For each sub-industry, this situation differs due to its unique dependence on exports and the dynamics of its own domestic market. Since 2000, for example, the domestic markets for rubber products grew by 33%, ferrous products by 66%, metal products by 18%, machinery by 56%, electrical machinery and equipment by 54% and other transport equipment by 73%.

Why, then, is the sector production languishing at 30% below the 2007 peak levels? Part of the answer lies in export markets being important, at around 50% of production, but weak. This weakness is coupled with depressed export prices in tandem with commodity price trends. The other side of the coin is that domestic producers continued to lose market share in their own market, from about 50% in 2013 to only 43% this year. The opportunity cost is a massive R50 billion worth of production forfeited and an estimated 40 000 jobs not created (going by the current sector employment multipliers). Again, the numbers differ widely for each sub-industry.

When one looks at the current job losses in isolation, the situation looks dire, especially due to an apparent acceleration in jobs lost recently. Alarmingly, jobs are shed slower than current production declines, indicating that the worse may still come. Over the last 12 months (middle 2015 to mid-year 2016), an estimated 25 000 people lost their jobs in the sector, from a total of 400 800 employees to 375 000 at the last count (mid-2016).

The cost, in terms of company closures and value destroyed, makes for equally bad reading. At an average company size of 50 employees, these numbers translate into 500 companies closing down during the year. (The losses differ again per sub-industry.) However, in the context described above, a set of different questions should be asked.

Surely, in-depth analyses of what each individual sub-industry is exporting to which countries, and what competing products are being imported will yield an array of answers and options of what could be done to regain South Africa’s product share in the domestic market, and larger export successes. To look at the overall sector and attempt one-size-fits-all solutions seems unproductive.

The issue of the sector’s inability to compete with cheap imports is often thrown in the fray willy-nilly. Almost in the same breath, the perceived benefit of a weaker exchange rate comes up, and the fact that exports are not rising concomitantly is then used as further evidence of lack of competitiveness.

Instead, questions must be directed at how to regain domestic market share in niches where the sub-industries can compete and improving efficiencies through modernisation and fixed investment where they are lagging. Recovery in each of the mining, construction and auto sectors is crucial for demand growth. World-class cost effectiveness and moral suasion will ultimately attract private sector demand. Stimulation and redirection of domestic general government procurement demand towards domestic metals and engineering producers is a policy measure over which South Africa has control.

The net result of losing domestic market share is, of course, lower production (-4,5% over the last 12 months) and lower capacity utilisation (-2,4%). At 77% capacity utilisation (against a benchmark of 85%), it means that fixed cost of production could be up to three times higher than at full capacity. Variable production costs have also shot up dramatically during the last two years. The combination of labour costs (20% weight), dollar-based prices (40% weight), administered prices (15% weight) and other costs (25% weight) increased by 12% during the year, while producer and merchant prices increased by only 10% and 3% respectively. The continued pressure on profits is obvious.

Mitigating against some of these variable costs seems critical. A “labour partnership for growth” will have to be formed. The reciprocal damage caused by industrial disruptions (autos, mining, construction and metals) in the past is something to be avoided. The exposure to international prices for inputs makes exchange rate movements a double-edged sword. It helps with export earnings, but simultaneously pushes input prices up. The situation is different in the case of administered prices, over which the country has control.

The debate about the costs of energy (and Eskom’s flier that it may sell electricity cheaper when in surplus) and carbon taxes, for example, is critical for the survival of the sector.

It cannot be over-emphasised that each sub-industry in the metals and engineering sector has unique circumstances and has to be treated individually and policy designed to support growing and successful entities and mitigate against the constraints each may experience.

It seems as if the structural shifts in market dynamics have not sunk in for companies, with some still viewing it as a cyclical downturn, and policymakers who are largely stuck on the “pipeline” construct of how to focus policy. The result of these tendencies is that the wrong questions are asked and the changing of course on a new path of efficiency and competitiveness is delayed.

Langenhoven is SEIFSA’s former chief economist