



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

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**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 4 OF 2016/2017

**INVITATION AND EVALUATION OF BIDS BASED ON A STIPULATED MINIMUM
THRESHOLD FOR LOCAL PRODUCTION AND CONTENT FOR THE RAIL ROLLING
STOCK SECTOR**

1. PURPOSE

1.1 The purpose of this Instruction is to:

- 1.1.1. Introduce amendments to the Instruction for Rail Rolling Stock dated 12 June 2014 by amending all clauses that contained the deeming of imported primary steel as locally manufactured.
- 1.1.2. Regulate the environment within which Accounting Officers (AOs) and Accounting Authorities (AAs) may procure the aforementioned products which have been designated as a sector for local production and content.

2. BACKGROUND

- 2.1 The Preferential Procurement Regulations, 2011 ('the regulations') made in terms of section 5 of the Preferential Procurement Policy Framework Act, 2000 (Act No 5 of 2000) which came into effect on 7 December 2011 make provision for the Department of Trade and Industry (dti) to designate sectors in line with national development and industrial policies for local production.
- 2.2 Regulation 9 (1) of the Regulations prescribes that in the case of designated sectors, where in the award of bids 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.

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- 2.3 To this end, the dti has designated and determined the stipulated minimum threshold for the Rail Rolling Stock sector for local production and content.

3. SECTOR DESIGNATION

- 3.1 The stipulated minimum threshold percentages for local production and content for the different classes of Rail Rolling Stock are as follows:

Classes of Rail Rolling Stock	Local Content Threshold
Diesel Locomotives	55%
Electric Locomotives	60%
Electric Multiple Units (EMU)	65%
Wagons	80%

- 3.2 To ensure that local production and content is discharged on manufacturing activities, the following components which have been designated must be included in bid invitations:

No	Component/Activity	% local content (3-5 years)	% local content (6 years and above)
1	Assembly of locomotives and EMU	100%	100%
2	Car body: - Car body shell - Door system - Windows - Seats (for coach interior) - Lighting - Grab pillars and rails - Interior glazing - Cable and wire - Safety equipment - Pipe works and ducts	100%	100%
3	Bogie: - Bogie frame - Motor suspension unit - Wheel sets and wheel components - Axle and axle boxes - Bearings - Bolster	100%	100%
4	Coupling equipment - Coupler body - Coupler hook	100%	100%

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No	Component/Activity	% local content (3-5 years)	% local content (6 years and above)
	- Yoke - Pin - Draft- gear		
5	Suspension - Shock absorbers and dampers - Springs	100%	100%
6	Heat, Ventilation and Air Conditioning - Fabrication - Power Coating - Heat Exchangers - Fans - Compressors - Refrigeration components - Electrical components - Fasteners - Insulation and liners	60%	70%
7	Braking system	70%	80%
8	Alternators	90%	100%
9	Traction motors	65%	80%
10	Electric systems	80%	90%

- 3.3 The timeline, 3-5 years, is for the purpose of ramping-up capability development in areas where the local industry does not have installed capacity. In areas where capability and capacity exists, the ramp-up phase does not apply and local content thresholds must therefore be achieved onset (i.e. day one).
- 3.4 All primary steel related products: flat products (plates, coils and seamless tubes) and long products (rounds, forged, angles, sections and wire related products) are included in this designation and must be manufactured and sourced locally. This is to support and sustain the existing local steelmaking capacity.
- 3.5 All castings and forgings related products made of ductile iron, aluminium, stainless steel, and mild steel, relating to the assembly and manufacture of Rail Rolling Stock (systems and components as indicated in 3.1 and 3.2) are included in this designation and must be manufactured and sourced locally. This is to support and sustain the existing local foundry industry and the creation of additional castings and forging capabilities.
- 3.6 In this designation, imported input raw materials (i.e. magnetic/electrical steel, copper rod, copper sheet, aluminium billet, resin, glass roving and thermoplastics sheets) used

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for the fabrication of Rail Rolling Stock (systems and components) are deemed as locally manufactured input materials. These inputs should be imported in raw material form for further fabrication in South Africa.

- 3.7 Furthermore, imported finished components (i.e. Light emitting diodes (LED) filaments, Insulated-gate bipolar transistor (IGBT), diodes, paper and boards for insulation, rotating machine bearings and wheel bearing parts (seal, seal wear ring, roller, cage, grease bearing outer ring and cone) are deemed as local. These finished components should be imported for systems integration and assembly in South Africa. This is to cater and allow for the importation of finished components that are not produced locally due to issues of economies of scale and technological solutions.
- 3.8 The imported input raw materials and finished components indicated in 3.6 and 3.7 used for the assembly and manufacture of Rail Rolling Stock will be deemed to have been sourced locally for the purposes of calculating local content.
- 3.9 If the quantity of materials and/or products required cannot be wholly sourced from South African (SA) based manufacturers and/or at the designated local content threshold at any particular time, bidders should request and obtain written exemption from **the dti**. Such exemption applications should be submitted and approvals should be obtained prior to the closure of the bid(s) concerned. **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, key components; and
 - technical considerations including operating conditions.
- 3.10 Bidders must clearly indicate in their bids the quantities of material and products to be supplied and the level of local content for each product.
- 3.11 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.
- 3.12 For further information, bidders and procuring state organs may contact the Metal Fabrication, Capital and Transport Equipment Unit within the dti at telephone 012 394 1356/3138/3522 or email Thandi Phele: TPhele@thedti.gov.za.
- 3.13 Bid specifications for the sectors, sub-sectors or products referred to above maybe done in collaboration with the dti.

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- 3.14 Subject to market changes, National Treasury in consultation with **the dti** reserves the right to reintroduce deeming of primary steel as locally produced.

4. INVITATION OF BIDS FOR RAIL ROLLING STOCK

- 4.1 Bids in respect of Rail Rolling Stock must contain a specific bidding condition that only locally produced or locally manufactured Rail Rolling Stock with a stipulated minimum threshold for local production and content will be considered.

- 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)

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:

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- 4.6.1 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; and
- 4.6.2 The rates of exchange quoted by the bidder in paragraph 4.1 of the Declaration Certificate will be verified for accuracy.

5. EVALUATION OF BIDS FOR RAIL ROLLING STOCK

- 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

- (a) Bids must be evaluated in terms of the minimum threshold stipulated in the bid documents.
- (b) 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.
- (c) The amendment of the stipulated minimum threshold for local production and content is not allowed.
- (d) AOs / AAs must ensure that the Declaration Certificate for Local Content (SBD / MBD 6.2) and the Annex C (Local Content Declaration: Summary Schedule) referred to in paragraphs 4.6 above are submitted as part of the bid documentation.
- (e) The dti has the right, as and when necessary, to request for auditors certificates confirming the authenticity of the declarations made in respect of local content.
- (f) 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

- (a) Only bids that achieve the minimum stipulated threshold for local production and content may be evaluated further. The evaluation must be done in accordance with the 80/20 or 90/10 preference point systems prescribed in Preferential Procurement Regulations, 2011.
- (b) AOs/AAs must ensure that contracts for Rail Rolling Stock 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.

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

5.2 Benchmark / market related prices

- 5.2.1 AOs/AAs are required to ensure that reasonable or market related prices are secured for the Rail Rolling Stock / components being procured, taking into account factors such as benchmark prices, value for money and economies of scale.
- 5.2.2 For this purpose, AOs/AAs may approach the dti to assist, where possible, with benchmark prices for the different classes and components of Rail Rolling Stock 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.

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:
 - 7.1.1 Notified of all the successful bidders and the value of the contracts; and
 - 7.1.2 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:

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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

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

- 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 will be forwarded to the Auditor-General for notification.

12. REPEAL OF INSTRUCTION DATED 12 JUNE 2014

This Instruction repeals instruction on invitation and evaluation of bids based on a stipulated minimum threshold for local production and content for the rail rolling stock sector dated 12 June 2014.

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13. AUTHORITY FOR THIS INSTRUCTION AND EFFECTIVE DATE

13.1 The Minister of Finance has approved the issuance of this Instruction in terms of regulation 9(2) of the Preferential Procurement Regulations (2011).

13.2 This Instruction takes effect on **27 July 2016**.



**KENNETH BROWN
CHIEF PROCUREMENT OFFICER**

DATE: 30/6/2016 .