



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Private Bag X115, Pretoria, 0001

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 3 OF 2019/2020:

INVITATION AND EVALUATION OF BIDS BASED ON A STIPULATED MINIMUM THRESHOLD FOR LOCAL PRODUCTION AND CONTENT FOR STEEL CONVEYANCE PIPES, PIPE FITTINGS AND SPECIALS

1. PURPOSE

1.1 The purpose of this Circular is to:

- 1.1.1. Introduce amendments to the Circular for large bore spiral submerged arc welded steel conveyance pipes dated 22 January 2018; and
- 1.1.2. Provide information to accounting officers (AOs) and accounting authorities (AAs) in terms of which they 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, 2017 made in terms of section 5 of the Preferential Procurement Policy Framework Act, 2000 (Act No 5 of 2000), which came into effect on 01 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 (2) of the Preferential Procurement Regulations, 2017 prescribes that in the case of a designated sector, an organ of state must advertise an 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 To this end, **the dti** has designated and determined the stipulated minimum threshold for the Steel Conveyance Pipes, Pipe Fittings and Specials for local production and content. The range of Steel Pipes considered for this round of designation is 500mm to

3500mm. Conversely, all sizes of Pipe Fittings and Specials are included in the designation.

- 2.4 The designation is applicable to all purchases regardless of the procurement method followed and there is no financial threshold.

3. SECTOR DESIGNATION

- 3.1 The Circular is applicable where an organ of state purchases directly or indirectly from a manufacturer and/or service provider; 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 or extended for a project in which the designated products are part of the bill of quantities or materials to be utilised 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, in a variety of manufacturing and industrial applications, to convey liquids and gasses from one point to another. In the case of water supply; they convey water from bulk water supply installations 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 The specifications and stipulated minimum threshold percentages and requirements for local production and content in respect to steel conveyance pipes, pipe fittings and specials are as follows:
- 3.7 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:

Table 1: 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
Pipes, Pipe Fittings and Specials made from Ductile Iron MUST NOT be considered for public procurement.			

Table 2: Steel Pipe Fittings and Specials

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

- 3.7.1 All primary steel products i.e. coils, sheets and plates used in the fabrication of steel conveyance pipes, pipe fittings and specials are included in this designation and must be manufactured and sourced locally. This is to support and sustain the existing local steelmaking capacity. Minimum threshold percentages for fabricated pipe fittings and specials that are Bare; Galvanized; Lined and Coated as well as Galvanized, Lined and Coated fittings are applicable. It is important to note that fabricated fittings refer to coil-based pipe fittings and specials. Accordingly, forged fittings are assigned a separate threshold.
- 3.7.2 In the designation, imported input raw materials (i.e. zinc ingots and additives for the galvanising processes as well as round bar for forged flanges) used in the fabrication of

the large bore spiral submerged arc welded steel conveyance pipe as well as pipe fittings and specials are deemed as locally manufactured input materials. These inputs should be imported in raw material form for further fabrication in South Africa.

- 3.7.3 The imported input raw materials, as specified in 3.7.2, used in the manufacture and fabrication of steel conveyance pipes, pipe fittings and specials will be deemed to have been sourced locally for the purposes of calculating local content.

4. INVITATION OF BIDS FOR STEEL CONVEYANCE PIPES, PIPE FITTINGS AND SPECIALS

- 4.1 Bids in respect of Steel Conveyance Pipes, Pipe Fittings and Specials must contain a specific bidding condition that only locally produced or locally manufactured Steel Conveyance Pipes, Pipe Fittings and Specials with a stipulated minimum threshold for local production and content will be considered.

- 4.1.1 If the quantity of materials and/or products required cannot be wholly sourced from South African based manufacturers and/or at the designated local content threshold at any particular time, bidders should obtain written approval from **the dti** to supply the remaining portion at a lower local content threshold. Such applications should be submitted and approval be obtained prior to the closure of the bid(s) concerned. **the dti**, in consultation with the procuring organ of state, will grant approvals on a case-by-case basis and will consider the following:

- a) required volumes in the particular bid;
- b) available collective South African industry manufacturing capacity at that time;
- c) delivery times;
- d) availability of input materials and components;
- e) technical considerations including operating conditions;
- f) materials of construction; and
- g) security of supply and emergencies.

- 4.1.2 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.

- 4.1.3 The turn-around time for processing of approval or authorisation requests is 5 working days from the date of receipt. Therefore, such applications should reach **the dti** at least five days before closing date and time of bid.

- 4.1.4 The approval process that **the dti** follows is that if there is a particular designated product and the minimum threshold for local content cannot be met for various reasons, bidders must apply for approval or authorisation (when the tender is still open, before closing date). After checking with the industry, **the dti** will then decide whether or not to grant an authorisation. This is per bid.

- 4.1.5 The tender information / relevant information must be provided on the tenderer's / supplier's letterhead when requesting an authorisation letter:

- a) Procuring entity/government department/state owned company,
- b) Tender/bid number,

- c) Closing date,
- d) Item(s) for which the approval is being requested,
- e) Detailed specifications issued by the procuring entity,
- f) Local content that can be met,
- g) Reason(s) for the request, and
- h) Supporting letters from local manufacturers/sub-suppliers.

4.1.6 Approval requests for Pipes, Pipe Fittings and Specials made from Ductile Iron material will not be considered for reasons that ductile iron pipes (pipe fittings & specials) and steel pipes (pipe fittings & specials) can be used interchangeably, and there is sufficient capacity to manufacture steel pipes, pipe fittings and specials in the country. The procurement of Pipes, Pipe Fittings and Specials made from Ductile Iron material is non-compliant with this instruction note.

4.1.7 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.

4.1.8 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 localcontent@thedti.gov.za

4.1.9 Bid specifications for the steel conveyance pipes, pipe fittings and specials referred to above may be done in collaboration with **the dti**.

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 the advertisement of the bid.

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 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 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:
 - 4.6.1 that 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;
 - 4.6.2 that the rates of exchange quoted by the bidder in paragraph 4.1 of the Declaration Certificate will be verified for accuracy; and
 - 4.6.3 all the information relevant to bidders provided in paragraphs 4.1.1 to 4.1.7

5. EVALUATION OF BIDS FOR STEEL CONVEYANCE PIPES

- 5.1 An evaluation process in line with Preferential Procurement Regulations, 2017 must be followed.

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 Preferential Procurement Regulations, 2017 and paragraph 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 within 30 days of award.
- 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 8 of the Preferential Procurement Regulations, 2017.

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:

Chief Director: Industrial Procurement
Tel: (012) 394 1435
Fax: (012) 394 1535
EMAIL: localcontent@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 applies.

10. DISSEMINATION OF INFORMATION CONTAINED IN THIS CIRCULAR

- 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 their departments, 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 CIRCULAR DATED 22 JANUARY 2018

This Circular repeals Circular on invitation and evaluation of bids based on stipulated minimum threshold for local production and content for steel conveyance pipes, pipe fittings and specials dated 22 January 2018 and effective 18 February 2018.

13. AUTHORITY FOR THIS CIRCULAR AND EFFECTIVE DATE

- 13.1 This Circular is issued in terms of regulation 8(3) of the Preferential Procurement Regulations, 2017 and takes effect on date of issuance.



MR WILLIE MATHEBULA

ACTING CHIEF PROCUREMENT OFFICER

DATE: 20.12.19