



# **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 INSTRUCTION NUMBER 7 OF  
2016/2017**

**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  
(CONVEYANCE PIPES)**

## **1. PURPOSE**

1.1 The purpose of this Instruction is to:

1.1.1. Introduce amendments to the Instruction for Steel Conveyance Pipes dated 28 September 2015 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 (**the 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.

2.3 **The dti** has designated and determined the stipulated minimum threshold for Conveyance Pipes for local production and content.

**3. PRODUCTS DESIGNATION**

- 3.1 The Instruction is applicable where an Organ of State purchases directly from the manufacture, 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.
- 3.2 A large bore spiral submerged arc welded steel conveyance pipe is a building material made from 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 There is a distinction between bare, galvanized and lined and coated large bore spiral submerged arc welded steel conveyance pipe.
- 3.3.1 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.
- 3.3.2 Galvanized large bore spiral submerged arc welded steel conveyance pipe is where the bare pipe is dipped in a hot zinc bath inside and outside surfaces are coated with zinc to avoid corrosion.
- 3.3.3 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.
- 3.4 To ensure that local production and content is discharged on manufacturing activities, the following Conveyance Pipes must be included in bid invitations:

Manufacturing process of Steel Conveyance Pipe	Size	% of 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

- 3.5 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.

- 3.6 In the designation, imported input raw materials (i.e. zinc ingots and additives for the galvanising processes) used in the fabrication of the Steel Conveyance Pipes are deemed as locally manufactured input materials.
- 3.7 The imported input raw materials, as specified in 3.6, used in the manufacture and fabrication on steel conveyance pipes will be deemed to have been manufactured and sourced locally for the purposes of calculating local content.
- 3.8 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.
- 3.9 Subject to market changes, National Treasury in consultation with **the dti** reserves the right to reintroduce deeming of primary steel as locally produced.
- 3.10 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 or email Thandi Phele at [Tphele@thedti.gov.za](mailto:Tphele@thedti.gov.za)
- 3.11 Bid specifications for the designated products in this instruction may be done in collaboration with **the dti**

#### 4. INVITATION OF BIDS FOR CONVEYANCE PIPES

- 4.1 Bids in respect of Conveyance Pipes must contain a specific bidding condition that:
- 4.1.1 Only locally produced or locally manufactured Conveyance Pipes with a stipulated minimum threshold for local production and content will be considered;
- 4.1.2 If the quantity; input materials; and/or components of large bore spiral submerged arc welded steel conveyance pipes required cannot be wholly sourced from South African (SA) based manufacturers to achieve 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 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 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:

$$LC = \left(1 - \frac{x}{y}\right) * 100$$

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 projects  $x$  and  $y$  will only refer to the value of the Conveyance Pipes 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 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](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:
- 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 CONVEYANCE PIPES

- 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 Annex 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 **Annex C** (Local Content Declaration: Summary Schedule) are submitted as part of the bid documentation.
- (e) 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. 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.
- (b) AOs/AAs must ensure that bids for products that are designated in this Instruction are awarded at prices that are market related taking into account, among others, benchmarking prices, value for money and economies of scale.
- (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 products 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. **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**

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 Annex C submitted by the successful bidder(s).
- 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 X 84  
Pretoria  
0001

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

- 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.

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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 28 SEPTEMBER 2015**

This Instruction repeals Instruction on invitation and evaluation of bids based on a stipulated minimum threshold for local production and content for Steel Conveyance Pipes dated 28 September 2015 and effected on 21 October 2015.

**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