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Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

Designation of Industries, Sectors & Products for
Local Procurement in the Public Sector

PORTFOLIO COMMITTEE ON TRADE & INDUSTRY

2 March 2016

Purpose of the Presentation

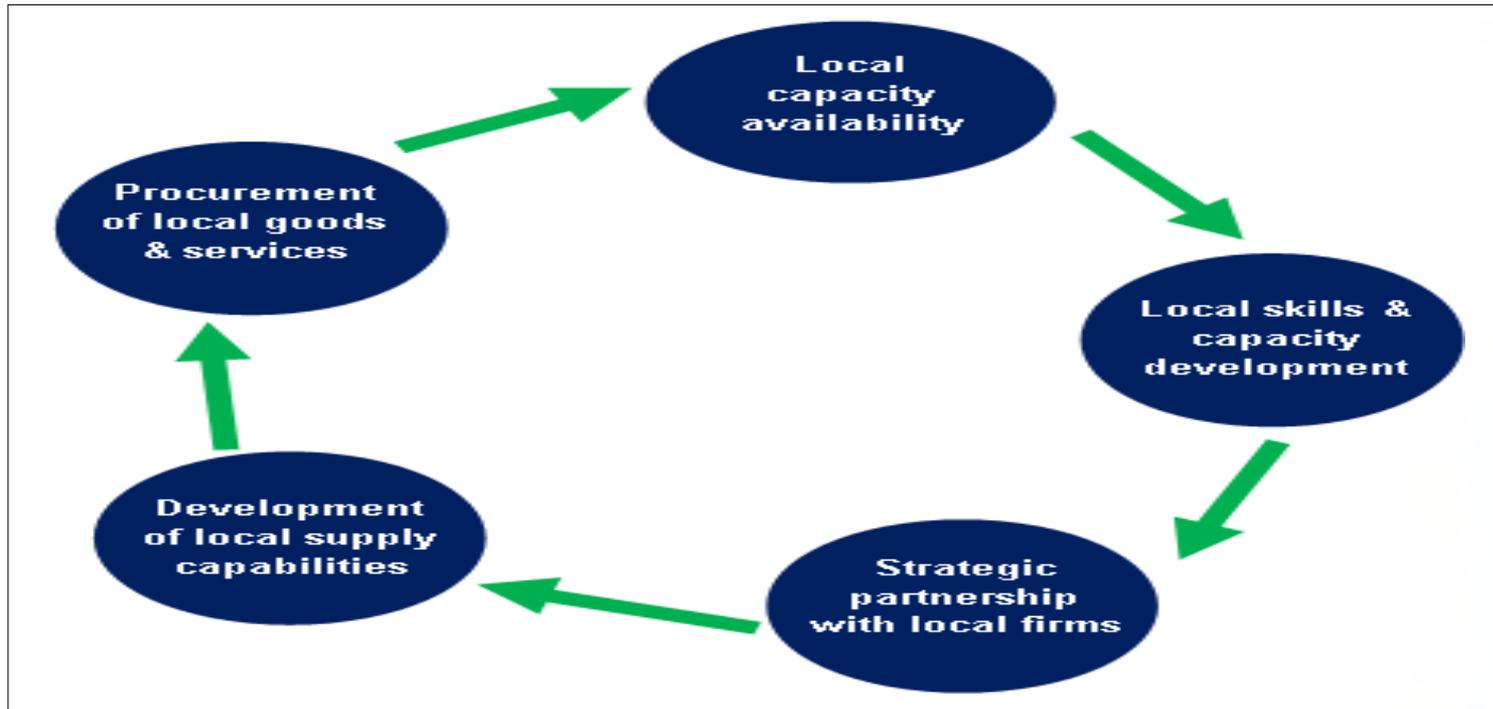
- Background on the Preferential Procurement Policy Framework Act (PPPFA) and Local Content
- Regulation 9.3 of the PPPFA
- List of Designated Sectors (approved, outstanding and not approved)
- Highlights on Designated Sectors
- Work in progress
- Priority areas for consideration

PPPFA and Local Content

- Preferential Procurement Policy Framework Act (PPPFA) was enacted in 2000, and its Regulations promulgated in 2001
- The Regulations were amended in 2011 and new regulations came into effect on 7 December 2011.
- **Section 9: Local Production and Content**
- Paragraph 9 (1) of the Regulations empowers the dti to designate specific industries where tenders should prescribe that only locally manufactured products with a prescribed minimum threshold for local production and content will be considered
- To give effect to government decisions on public procurement; sectors/products were and are being designated for local production

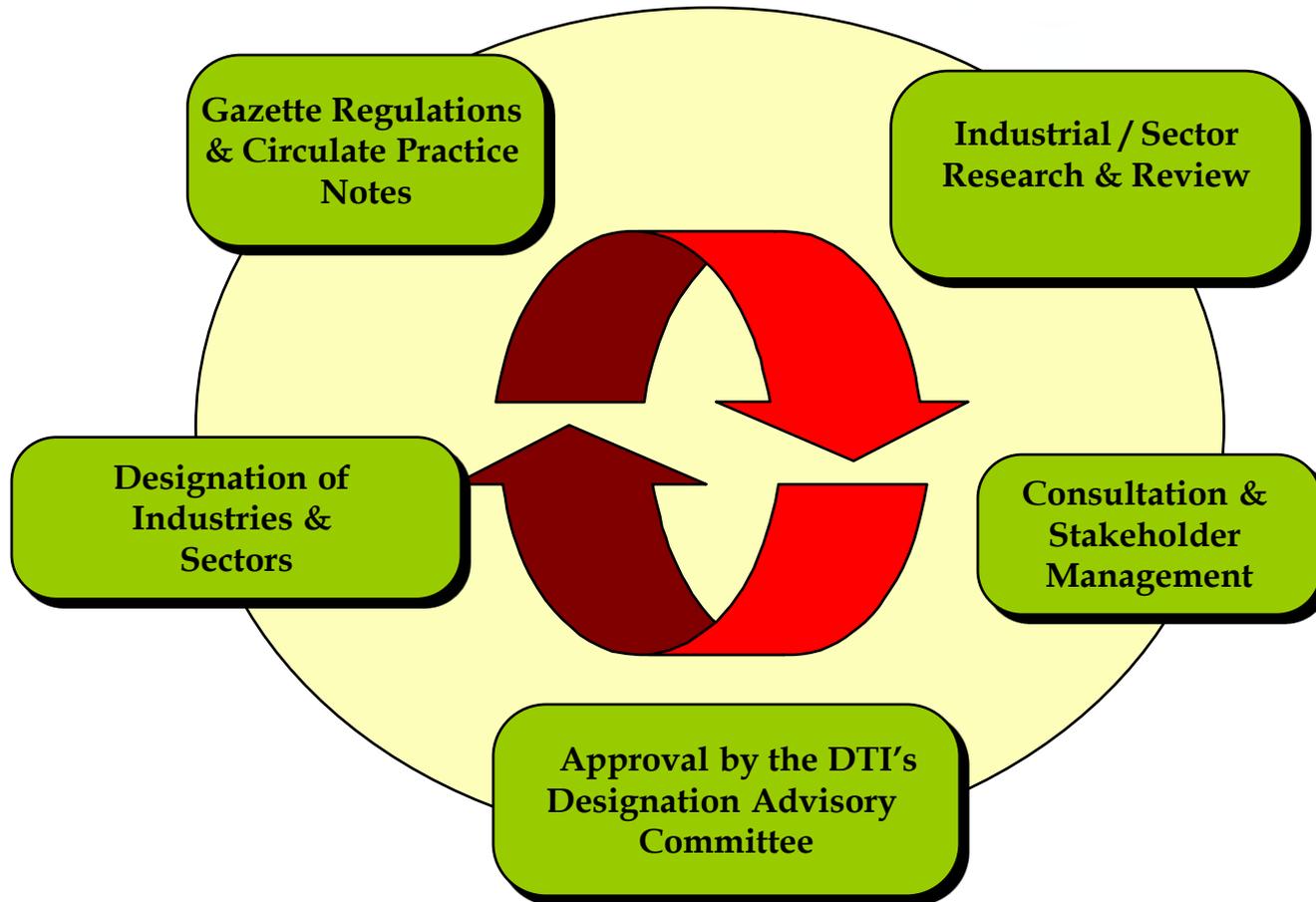
Key Elements of a Local Content Programme

“Local Content” means that portion of the tender price which is not included in the imported content, provided that local manufacturing does take place within the borders of South Africa (SABS Approved Technical Specification SATS 1286:2011)





Designation Process Flow





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ORIGINAL
S.W.A.T.
CLASSIC 6"
SIDE ZIP



Understanding of Local Content Value Chain & Linkages

<p>Supply Chain Programme Management: Once off opportunity Manufacturing has longer term opportunity due to added O&M phase</p>								
	Design	Material	Manufacturing/ Construction	Testing	Commissioning	O&M	Decommissioning/ Disposal	
Scope	Understanding Current Industry Capabilities							GAP Analysis
	Research and Development							
	Finance / Funding							
	Skills Development							
	BBBEE / Transformation							
	Intellectual Property / Technology Transfer							
	Appropriate Legislation							
Procurement Process								
Contract Management (Penalties and Incentives)								
Supplier Relationship Management								

Designated Products

Designation Matrix

Sectors Already Designated*	Minimum Local Content Thresholds		Sectors Forwarded to the NT for Designation**	Minimum Local content Thresholds	
Description		Date	Description		Date
1. Rail Rolling Stock	65%	16-07-12	1. Building & Construction Materials		14/15 Q1
2. Bus Bodies	80%	16-07-12	2. Yellow Metals		14/15 Q1
3. Canned/Processed Vegetables	80%	16-07-12	3. Two Way Radios		14/15 Q1
4. Textile, Clothing, Leather and Footwear Sector	100%	16-07-12	4. Solar PV Components		14/15 Q2
		16-07-12	5. Rail Signalling System		14/15 Q2
5. Solar Water Heaters (collectors and storage tanks/geysers)	70%	19-07-12	1. Guidelines on the Implementation of Reg. 9.3 of the PPPFA		11-12
6. Set-top Boxes	30%	26-09-12			
7. Certain Pharmaceutical Products	Per Tender	07-11-12			
8. Furniture Products	85%	15-11-12			
9. Electrical and Telecom Cables	90%	08-05-13			
10. Valves Products and Actuators	70%	06-02-14			
11. Working Vessels	10-100%	01-08-14			
12. Residential Electricity Meters	50-70%	01-08-14			
13. Steel Conveyance Pipes	80-100%	28-09-15			
14. Powerline Hardware and Structures	100%	28-09-15			
15. Transformers	10-100%	28-09-15			

Requirements on the Invitation of Bids

- ❑ Bids for all designated sectors/products must contain a specific bidding condition that only locally produced or locally manufactured goods, works and services with a stipulated minimum threshold for local production and content will be considered.
 - If the raw material or input to be used for a specific item is not available locally, bidders should obtain written authorisation from the dti should there be a need to import such raw material or input; and
 - A copy of the authorisation letter must be submitted together with the bid document at the closing date and time of the bid

Requirements on Post Award & Reporting

- Once bids are awarded, the dti must be notified of all the successful bidders and provided with copies of their SBD/MBD 6.2 & Annex C.
- The amendment of the stipulated minimum threshold for local production and content is not allowed
- Contractors must not be allowed to sub-contract in such a manner that the local is reduced to below the stipulated minimum threshold
- 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
- the dti and SABS to conduct local content verification**

Local Procurement of Non-Designated Products

- **Regulation 9 (3) prescribes that** “...where there is no designated sector, an organ of state may include, as a specific tendering condition, that only locally produced services, works or goods or locally manufactured goods with a stipulated minimum threshold for local production and content, will be considered, on condition that such prescript and threshold(s) are in ***accordance with the specific directives issued for this purpose by the National Treasury in consultation with the dti***”.

Consideration:

- Constitutional and legal compliance
- Economic and fiscal considerations
- Long term public procurement plan and expenditure
- Alignment with policy objectives, in particular the creation and retention of decent jobs
- Promotion of SMME’s, geographic spread, technological capabilities
- Local manufacturing capacity and security of supply

Progress on Designated Sectors

- **Rail fleet procurement**

- PRASA and Gibela Rail Transportation announced that the entities had achieved commercial close on the contract to supply the state agency with 7,224 new coaches at a projected cost of R123 billion over 20 years.
- The tender is estimated to create over 8000 direct jobs.
- Transnet has awarded a total of R50bn in contracts to CSR Zhuzhou Electric Locomotive, CNR Rolling Stock SA, Bombardier Transportation SA and General Electric SA for the building of 1,064 electric and diesel locomotives **to be built in SA**.
- All the locomotives, except for the first 70, will be built in Transnet Engineering's plants in Pretoria & Durban.

Rail Rolling Stock Opportunities

Locomotive Business



Wagons Business



Rolling Stock Equipment Business



Auxiliary Business



Wheel Business



Coaches Business



Rotating Machine Business



Foundry Business





Progress on Designated Sectors

- **Automotives**

- Volvo Southern Africa, in partnership with Marcopolo South Africa, has been contracted to produce 131 buses - 85 rigid 12m and 46 articulated 18m vehicles - to the City of Tshwane by 2016.

- Mercedes-Benz South Africa (Sandown Motor Pty Ltd) won the tender to provide 134 busses for the phase 1B of the City of Johannesburg's Rea Vaya rapid bus system. ‘

- The City of Cape Town awarded Volvo South Africa a tender to provide 40 busses for the extended MyCiti rapid bus routes at a cost of R180m.

- Tshwane Municipality has awarded MAN a tender to supply 120 A84 Lion's City busses.



Progress on Designated Sectors

- **Pharmaceuticals**

- Four pharmaceutical companies were jointly awarded a R10 billion tender to supply the Department of Health with antiretroviral (ARV) medication from 1 April 2015 to 31 March 2018.
 - ***Sonke Pharmaceuticals was awarded R3 billion, Mylan Pharmaceuticals R2.8 billion, Aspen Pharma R2.5 billion, and Cipla Medpro R2 billion.***
- The 2014-2016 OSD tender worth R 2.683 billion was awarded to 38 companies. Including local manufacturers such as Aspen (38%), Adcock (2%), Sanofi-Aventis and its subsidiary Winthrop (11%), Sandoz (3%) and Be-Tabs (3%).
- The tenders had a conditional provision for designation of up to 70% of the tender volume for domestic manufacturers.

Priority areas for consideration

- **The alignment of procurement levers to optimise industrial development**
 - *Develop and agree on instruments to support the government's 75% Local Procurement Target*
 - *Finalise and implement guidelines on Regulation 9.3 of the PPPFA*
- **Review of Instruction Notes that deal with the deeming of imported steel as local. This is done to support the local procurement of primary steel.**
- **Participate in the PPPFA Reforms (amendment of the Act, Regulations and Competition policy issues)**
 - *Powers to deal with non-compliance on local content / designation*
 - *An engagement is currently taking place with the Auditor General's Office to develop a framework to audit compliance and expenditure on designation / local content*

Priority areas for consideration

- Alignment of BB-BEE Scorecards (enterprise and supplier development) and Competitive Supplier Development Programme
- Review SATS 1286: technical specification for the calculation and measurement of local content
- Provide a list of exempted products to the TLIU for localisation and investments
- Capacity building in local content management, planning, sourcing and supplier development

Priority areas for consideration

- On-going efforts to secure stronger alignment with the National Industrial Participation programme (NIPP) to secure investment in key industrial sectors
- On-going efforts to secure stronger alignment with the Department of Public Enterprises (DPE) and Transnet with respect to localisation and supplier development in the rail procurement across all OEM's in the rail fleet procurement.



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Thank You