

OVERVIEW OF LOCAL PUBLIC PROCUREMENT IN THE TRANSPORT SECTOR

PRESENTATION TO THE PORTFOLIO COMMITTEE ON
TRADE & INDUSTRY

04 DECEMBER 2018



the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA



INDUSTRIAL POLICY OBJECTIVE W.R.T LOCAL CONTENT REQUIREMENTS IN THE TRANSPORT SECTOR

Leverage public expenditure, both CAPEX and OPEX, made by organs of state (all spheres of government and SOCs) to:

- Develop and enhance local manufacturing capacity and capabilities
- Support industrial innovation and technological developments
- Create employment and sustain jobs
- Boost exports and ensure suppliers are integrated into OEMs' global value chains
- Support broader economic empowerment through the creation of black industrialists

LEGISLATIVE FRAMEWORK

- Regulation 9(1) of the 2011 Preferential Procurement Regulations empowered **the dti** to designate specific industries/sectors, where only locally manufactured products that meet the stipulated minimum threshold for local content will be considered.
- Regulations also required organs of state must include local content in their invitation for tenders.

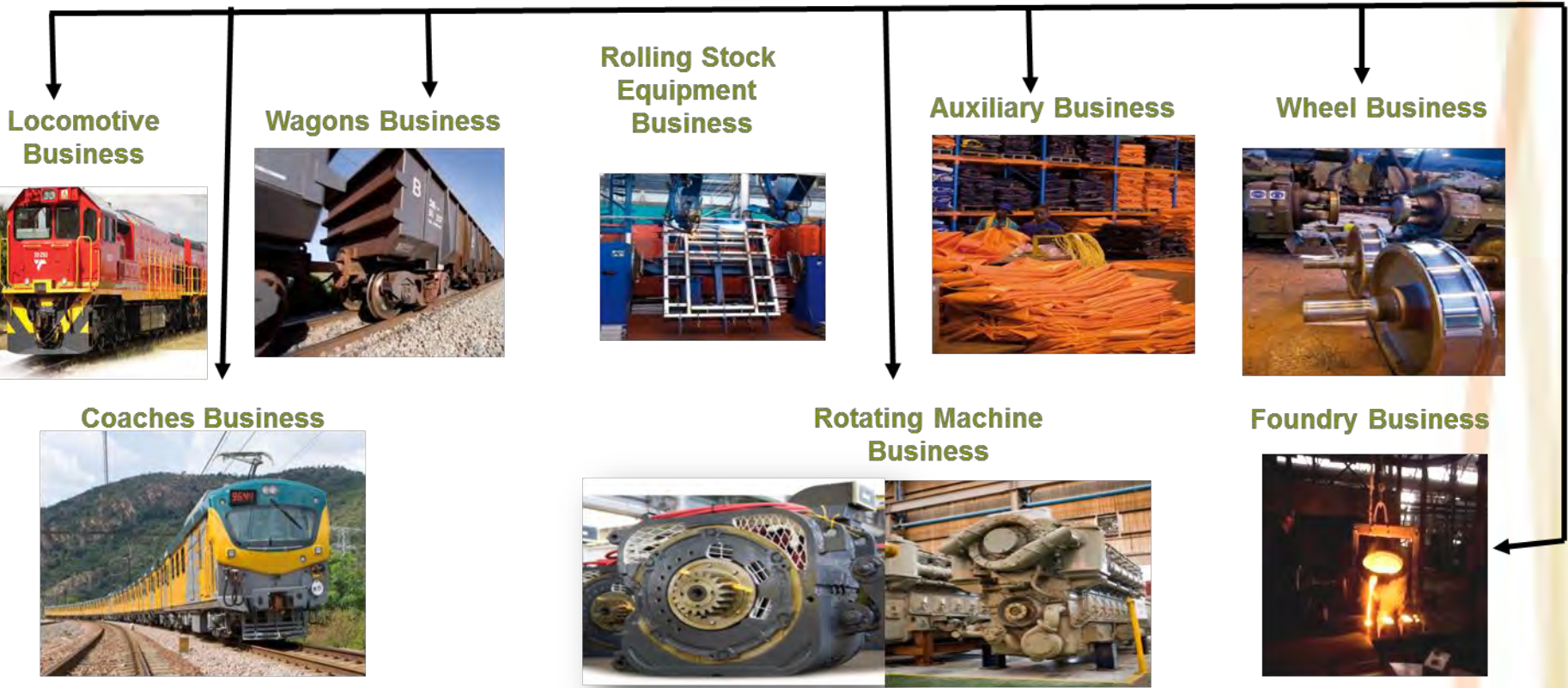
LEGISLATIVE REQUIREMENTS: LOCAL CONTENT IN THE TRANSPORT SECTOR

Description	LC Threshold	Date
1. Rail Rolling Stock	55 - 80%	16-07-2012
2. Bus Bodies	80%	16-07-2012
3. Working Vessels (Boats)	10-100%	01-08-2014
4. Rail Signalling System	40-100%	30-06-2016
5. Fire Fighting Vehicles	30%	21-11-2016
6. Rail Permanent Way Sector	90%	13 -11-2017

Products under consideration for further localisation:

- Earth-moving equipment (yellow metals: graders, excavators, TLBs).
- Vehicles, bakkies and LDVs.

RAIL ROLLING STOCK INDUSTRY OPPORTUNITIES



LOCAL CONTENT IN THE RAIL SECTOR (ANALYSIS OF THE 1064 LOCOMOTIVES CONTRACTS)

- Following designation, Transnet Freight Rail issued out two Request for Proposals (RFPs) for the supply of locomotives: TFRAC-HO-8608 (*Supply of 599 New Dual Voltage Electric Locomotives*) and TFRAC-HO-8609 (*Supply of 465 New Diesel Locomotives*).
 - The two tenders were both issued on the 23rd July 2012 with a closing date of the 16th October 2012, which was extended to 30 April 2013.
- The RFPs included local content which was captured under Section 1: Notice to bidders – (page 5 of 60), which also included local content requirements at a component level.

LOCAL CONTENT IN THE RAIL SECTOR (ANALYSIS OF THE 1064 LOCOMOTIVES CONTRACTS)

- The RFPs further stated that the (SABS) *Technical Specification SATS 1286:2011*, must be used for the calculation of local content.
- Local content declaration documents were listed as returnable under Section 4 of RFPs.
- Post the adjudication and award, in 2014 and 2015, Transnet provided **the dti** with copies of the local content declaration excluding the contract and signed bidding documents (SBD 6.2) as required by the Instruction Note.
- The purpose of the contracts and declaration documents is to enable **the dti** together with (SABS) to conduct compliance audits and verification as part of monitoring.

LOCAL CONTENT DECLARATION BY THE SUCCESSFUL BIDDERS (ANALYSIS OF THE 1064 LOCOMOTIVES CONTRACTS)

Declarations from 2014 & 2015 submissions by TFR:

- OEMs declared according to the overall local content requirements and not at a sub-component level

Company	Local content declaration
Bombadier	60.1%
General Electric	55.74%
CNR	55%
CSR	60.52%

LOCAL CONTENT IN THE RAIL SECTOR (ANALYSIS OF THE 1064 LOCOMOTIVES CONTRACTS)

- Another set of declaration documents, including contracts was sent to **the dti**, DPE and SABS in April 2018 after the intervention by both the Ministers of Trade & Industry and Public Enterprises.
- **the dti** reviewed the contracts for local content requirements:
 - All the contracts were signed on the 17th March 2014.
 - In all the contracts except one by CNR there is no obligation pertaining to local content. CNR declared that “the contractor will deliver 55% Local Content and Supplier Development total equal to 50.7% of the Total Contract Price”.
 - The exclusion of local content as a contractual obligation creates a big problem in as far as adherence and monitoring of the implementation of local content requirements as stipulated in the instruction note.



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LOCAL CONTENT IN THE RAIL SECTOR (ANALYSIS OF THE PRASA PASSENGER ROLLING STOCK CONTRACTS)

- PRASA issued a tender for the procurement of 3600 coaches (600 trains) in April 2012
- This tender is not issued in terms of the 2012 instruction note as the note was not officially signed-off and issued by National Treasury
- The tender was subsequently awarded to Gibela (Pty) Ltd in October 2013, PRASA and Gibela reached financial closure in April 2014
- The tender was awarded with the overall minimum local content requirement of 65% and with differences on the sub-component local content levels and ramp-up approach
- **The dti** has no sight of the PRASA-Gibela contract, hence the difficulty in assessing the collective industrial impact of this programme

LOCAL CONTENT IN THE RAIL SECTOR (ANALYSIS OF THE GMA PASSENGER ROLLING STOCK CONTRACTS)

GUATRIN ADDITIONAL 48 EMU UNITS & DEPOT ENHANCEMENT PROJECT

- On 11 January 2016, Gautrain Management Agency issued a Request for Qualification (RFQ) for the procurement of additional 48 coaches (12 trains) & depot enhancement project.
- The RFQ was issued in terms of the 2014 Instruction Note on rolling stock
- 3 bidders are pre-qualified namely: Bombardier Transportation; CRRC E-Loco Supply; and Alstom Southern Africa. All OEMs have formed JVs with local empowered companies
- RFP, which closed on 10 October 2018, was issued to the pre-qualified bidder.
- Evaluation and award yet to finalised.

OEMs PROGRESS ON 1064 BUILD PROGRAMME

OEM	PROGRESS
GE (233 Diesel)	<ul style="list-style-type: none"> • 6 manufactured and delivered from the U.S and accepted by TFR • 227 to be manufactured at TE Koedoespoort Facility in Pretoria • Programmes closed - all locos delivered • The end of this contract provides opportunities for the further localization of parts and components for the maintenance of this fleet.
CSR (359 Electric)	<ul style="list-style-type: none"> • 40 manufactured and delivered from China and accepted by TFR • 208 manufactured and assembled at TE Koedoespoort Facility
BTSA (240 Electric)	<ul style="list-style-type: none"> • 240 to be manufactured at TE (Durban) • 26 made in SA
CNR (232 Diesel)	<ul style="list-style-type: none"> • 20 manufactured and delivered from China, 2 to be accepted by TFR • 212 to be assembled at TE (of which 15 will come as semi knock down kids (SKDs))

PROGRESS ON ELECTRIC MULTIPLE UNITS: PASSENGER

SOC	PROGRESS
PRASA	<ul style="list-style-type: none">• Construction of the local factory at Dunnottar Park is on progress.• Construction of the main car-body shell building and training centre was completed in January 2018.• Gibela commenced with manufacturing activities in January 2018.• Facility to produce two cars a day, one and a half trains a week and 62 trains a year will be produced.• First SA made train by the end of 2018.



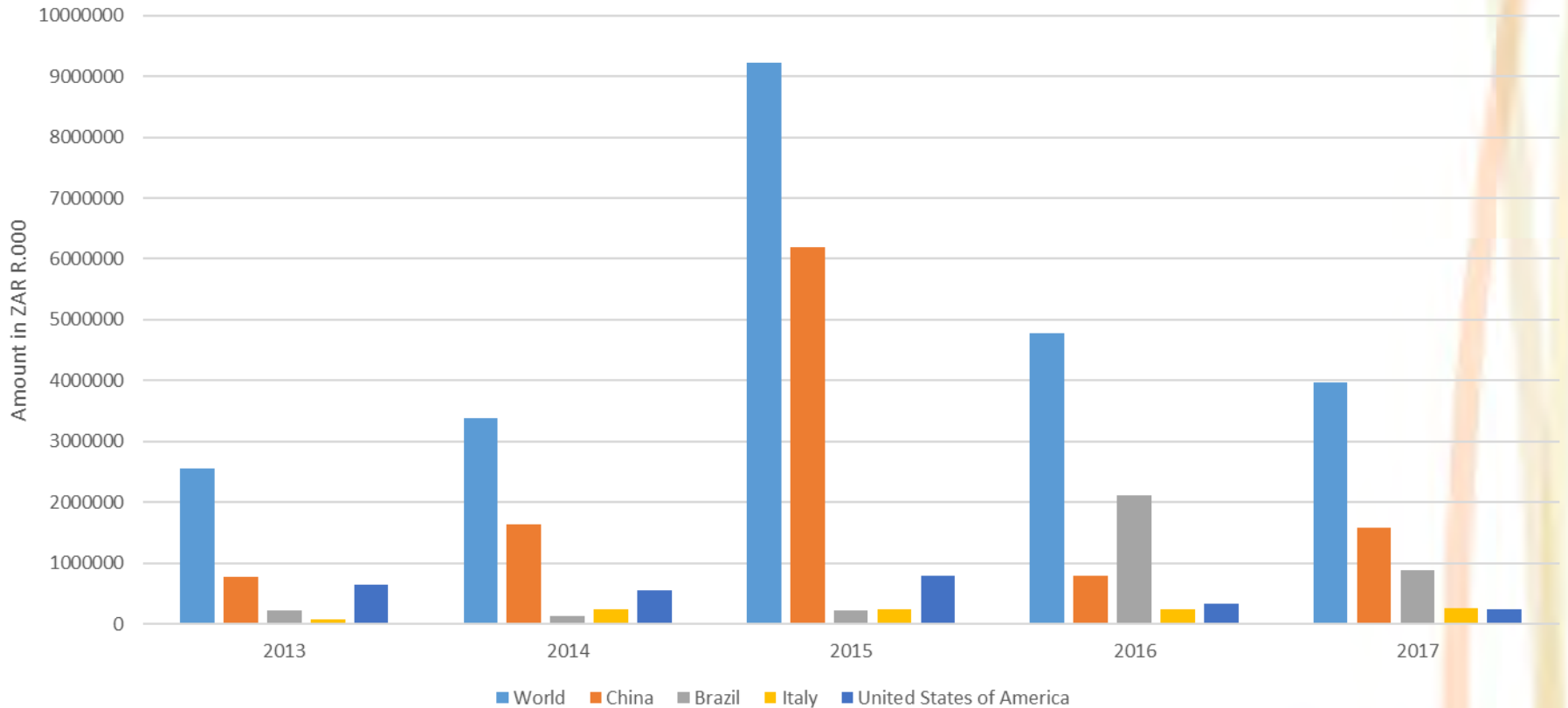
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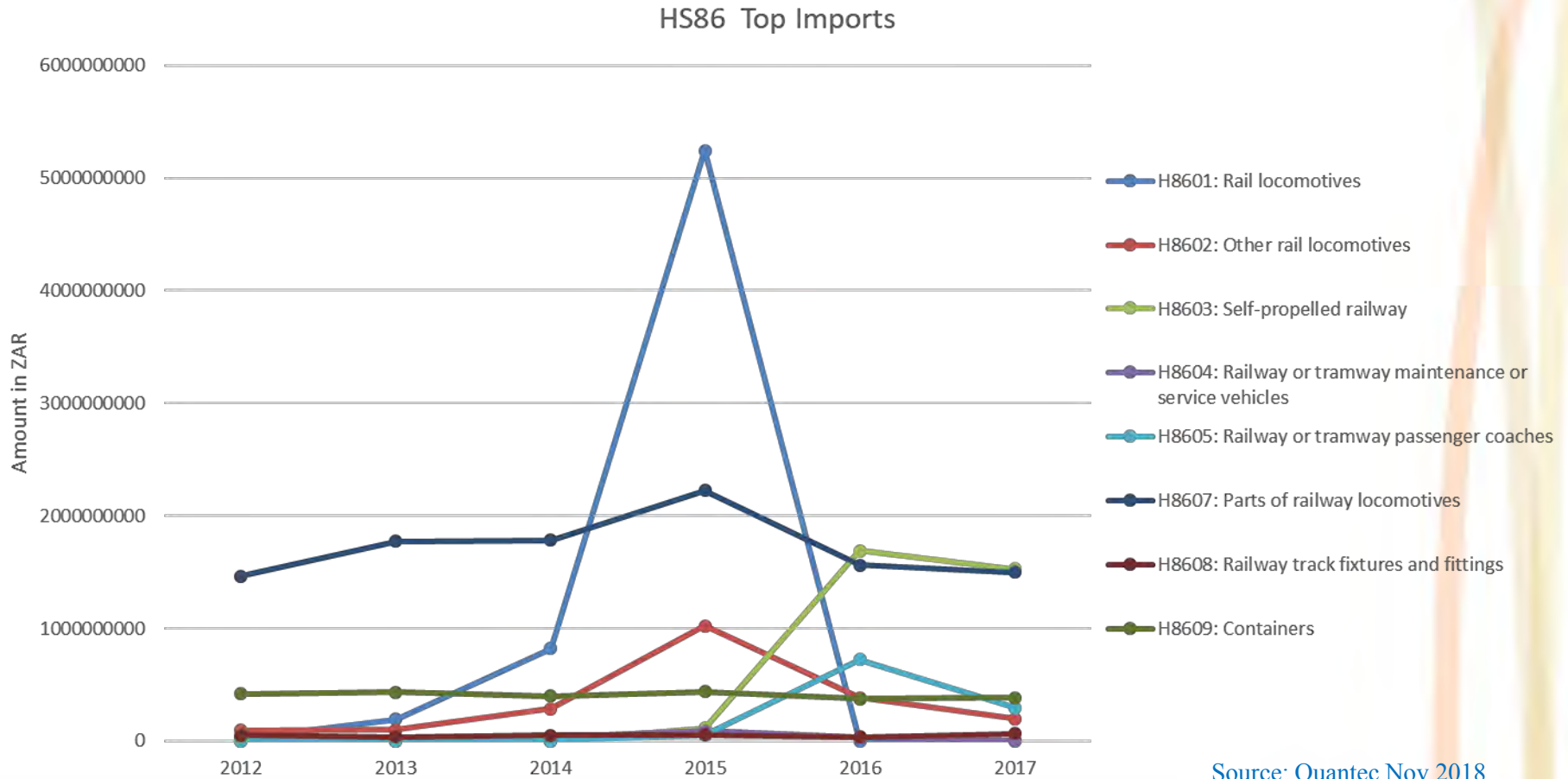
PERFORMANCE OF THE RAIL SECTOR: (HS 86 imports from the rest of the world & top 3 countries)

SA IMPORTS UNDER HS86



Source: Quantec Nov 2018

PERFORMANCE OF THE RAIL SECTOR: (HS 86 imports)



Source: Quantec Nov 2018



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REMEDIES FOR NON-COMPLIANCE

- **Section 14 of the PPPFA Regulations: Remedies**
- **14. (1) An organ of state must, upon detecting that a tenderer submitted false information regarding BBBEE, Local Content or any other matter:**
 - (a) inform the tenderer accordingly;
 - (b) give the tenderer an opportunity to make representations within 14 days
 - (c) if it concludes, after considering the representations that false information was submitted – disqualify the tenderer or terminate the contract in whole or part and if applicable claim damages from the tenderer.
- **14. (2) An organ of state must inform the National Treasury of any actions taken.**
- **14. (3) The National Treasury must decide whether to restrict the tenderer for 10 years and publish on website a list of restricted suppliers**

RECOMMENDATIONS AND WAY FORWARD

- Local content verification with SABS has commenced and priority will be on Class 44 by GE and Class 23 by CSR given the contracts' stage of delivery.
- Whilst, the BTSA & CNR projects are behind the original schedule, the local content verification is underway which will enable timeous implementation of remedial actions.
- Opportunity exist to review the remaining projects i.e PRASA-Gibela, TFR-BTSA & CNR. This will allow for consolidation, better utilization of the existing industrial capacity and reduction of import content.
- Section 14 of the PPPFA Regulations be applied by the procuring entities for non-complying OEMs.

Thank You



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