



CSDP Supplier Guidelines

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ANNEXURE C

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What is CSDP?

Definition

The Competitive Supplier Development Programme (CSDP) is a government initiative run by the Department of Public Enterprises. The aim of CSDP is to increase the competitiveness, capacity and capability of the South African supply base where there are comparative advantages and potential competitive advantages of local supply. This can be achieved through skills transfer, increasing the local content of items procured as well as building new capability in the local supplier base.

Historical Context

Due to relatively low expenditures over the past thirty years, the capacity of South African supply industries has been significantly reduced. Therefore, Transnet has chosen to participate in CSDP to allow for investment into its own supply chain. The goal of Transnet's CSDP programme is to encourage investment into Transnet's supply chain to rebuild the local supply base. This will allow Transnet to reduce supply chain costs, promote economic growth, reduce unemployment and poverty and avoid capital leakage that will be introduced by its large infrastructure spend.

Previously, Transnet participated in the National Industrial Participation Programme (NIPP). NIPP is an import-offset programme (for government agency expenditure) managed by the Department of Trade and Industry (dti). Under the NIPP programme all imports of more than \$10 million, require the supplier to work with the DTI to invest the equivalent of 30% of the value of the purchase in a non-related industry.

Transnet's commitment to CSDP

While being a cost-effective and efficient transport service provider is at the core of Transnet's way of doing business, Transnet is aware of its social responsibilities in the context of the challenges faced by our country. As such when Transnet conducts business it analyses the impact of its investments not only to determine the impact on the company but to understand the opportunities that arise from its investment decisions that can positively impact on the people of South Africa and the environment.

Given Transnet's long-term demand for capital and operational goods and services a range of CSDP opportunities will present itself. Each opportunity will be analysed on a case by case basis and a large range of factors will be taken into consideration to determine the best CSDP initiative. Ultimately the evaluation of CSDP initiatives will be assessed on the impact it will have on the country.

Socio economic impact will largely be measured on factors that decrease capital leakage, increase local content and provide relevant skills transfer. Transnet has recognised four main areas of opportunity that could arise through CSDP.

The four identified opportunities are:

Targeted skills: This refers to skill sets that our CSDP partners can provide particularly on improving our day to day operational requirements and improving ours and local supplier skills sets.

Maintenance and repair capabilities: In addition, to the day-to-day operational skills Transnet will require additional skills to maintain its capital associated with its investment programme (e.g. port equipment maintenance). It will need to develop the appropriate skill sets and capabilities to maintain its current fleet.

Component manufacture/upgrade capabilities: this refers to either local suppliers or Transnet Rail Engineering working with multinationals to manufacture or upgrade parts on the behalf of multinationals so that they ultimately become a part of the multinationals global supply chain or develop the necessary capabilities to supply this globally.

System/sub-system manufacture: This in particular refers to design and development of systems and sub-systems. While Transnet itself will not engage in design it recognises that other local suppliers might be and Transnet will support these initiatives.

Socio -Economic Impact

Each type of CSDP opportunity has varying impact on national economic growth

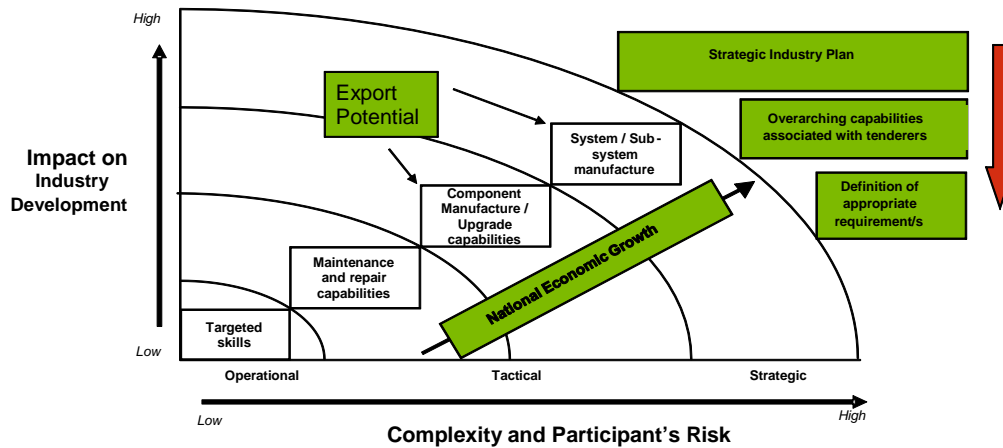


Figure 1: CSDP opportunities

What is expected of the Supplier?

The supplier is expected to formulate a CSDP proposal to identify the opportunities that the supplier will pursue. Ideally the CSDP response should address the localisation/industrialisation of the South African industry and transfers skills to Transnet and its local partners. Transnet has identified a number of types of opportunities which may aid a supplier in formulating their response.

Each of the opportunities listed above will have a direct or indirect effect on the value it creates for the country. To maximise the socio-economic impact a CSDP initiative may focus on a combination of opportunities depending on the state of the local industry. Therefore a successful CSDP initiative is one that is designed by taking into account both the current business environment (Transnet's needs and local industry capabilities) and the impact it will have on economic development.

What do I need to do? (The CSDP process)

The supplier will be required to compile a CSDP Proposal which will form part of the suppliers bid; the focus areas for the specific tender will form part of the tender documents.

The Supplier's CSDP Proposal should focus on three components which will be informed by the individual tender. As each CSDP opportunity is different, each CSDP bid would require a different focus. A customised worksheet will be attached to each tender to aid suppliers in submitting their CSDP Proposal.

Localisation: broadly refers to, but is not limited to upgrade and manufacture of components, system/sub-systems that the supplier is willing to produce locally. This section in particular needs to state the impact that the CSDP plan will have on capital leakage (This normally occurs due to payment for goods or services that are sourced offshore with the resultant outflow of capital from the local South African economy into foreign economies).

Under this section the supplier is required to state and motivate what parts and the value of these parts (in their current supply chain) for which they will use local suppliers or Transnet Rail Engineering to upgrade, manufacture, design and/or develop components, systems, sub-systems etc. Furthermore to build local capacity the supplier might have to invest in the local supplier. All cash investment (machinery, tools, etc) should be included to give an indication of the value that is being brought to the local industry.

To help unlock the value associated with localising part of the supply chain Transnet together with other agencies have ranked items to give the supplier an understanding of the complexity, suitability and resources required by suppliers to localise parts of their supply chain. The supplier is required to state in its proposal on which items are of shallow, intermediate and advanced capability. If this item is not listed please state this in the proposal. This breakdown is found in Appendix 2

Sustainability: This section refers to the nature/type of CSDP opportunity that the supplier is willing to engage in and the objectives of their CSDP proposal. In this section

the supplier is required to describe their CSDP initiative and show how its design and plan maximises socio-economic benefits. The design should take into account the capability and capacity, responsiveness and competitiveness of local supplier industries (business environment) as well as the likely risks that might be faced and what actions the supplier is willing to take to mitigate these risks as well as sustainability of the commitment once the supplier contract ends.

In addition, the nature of the CSDP opportunity should state whether the CSDP initiative proposed expands local production and/or builds export capability and the duration of the CSDP Proposal. If export capability will be built, the forecast, assumptions and the value of this should be given.

Please ensure that the selection of the type of CSDP initiative is well motivated and is accompanied by a plan with clear milestones to achieve the goals of the proposed initiative.

Furthermore, the method in which this is executed needs to be clearly outlined (eg. Building links with suppliers global supply chain, manufacturing under brand etc.) Furthermore if there is an IP transfer to local industries the substantiated value and the conditions under which this is given should be clearly indicated.

Skills transfer: This section refers to the skills that will be transferred both to Transnet and the local industry. In this section all types of training, bursaries/scholarships and knowledge related to maintenance should be outlined. For all types of skills transfer please state the skills set that will be developed, the value of this training and the accreditation (if any). All training needs should be aligned to Transnet business needs or should build tangible capability within the local industry to increase competitiveness and capability.

If the suppliers tender bid is successful, the supplier will be required to develop a more detailed business CSDP plan and deliver it to Transnet in 60 days. The CSDP Plan will have to outline:

The type of localisation effort that will be pursued, the anticipated investment, description of products and services to be produced as well as processes, systems, technologies and equipment.

- Market Research and Analysis
- Financial plan
- IRR, NPV and payback period
- Financial details of the project i.e. such as the project budget
- Project Management
- Detailed project plan including Gantt chart
- Details of project resources
- Milestone plan detailing monthly milestones against which progress can be tracked
- Proposed quarterly reporting mechanisms

Once the CSDP plan has been finalised with Transnet, the supplier will initiate the plan. The CSDP plan is then added as an addendum to the main contract. The supplier will be required to report quarterly on the progress being made against the plan, the attainment of milestones and the reasons (if any) that goals are not being met. Transnet will supply guidelines to the reporting format required for the quarterly reports.

Failure of the supplier to comply with their CSDP commitments would constitute a breach of contract.

Who are the CSDP Stakeholders?

There are various industry associations whereby local suppliers can join in order to obtain a view of Transnet's long term purchasing requirements. Some of these associations are able to benchmark relevant suppliers against each other on the basis of financial strength, capability, and skills and then recommend them as possible downstream suppliers to the appropriate multinational.

CSDP consists of demand-side and supply-side measures aimed at increasing the competitiveness, capacity and capability of the local supply base.

Transnet is working in collaboration with different government departments such as the Department of Public Enterprises (DPE), Department of Trade and Industry (DTI), Department of Science and Technology, the United Nations Industrial Development Organization (UNIDO), the Rail and Harbour Supply Chain Association as well as numerous local Supplier Industry Associations to achieve global competitiveness of local suppliers and making South Africa a more attractive destination for foreign investment.

These CSDP stakeholders play different roles to ensure the success of localization initiatives. The demand-side consists of the DPE which initiated CSDP and is responsible for approving the Supplier Development Plan (SDP) of Transnet. The supply side is represented by DTI which provides access to the local supply base while DST aims to close any technology gaps identified.

UNIDO which was commissioned by the DPE to be a part of this initiative and provides Supplier Benchmarking, Buyer and Supplier Matchmaking and Capacity Building for Supplier Development. UNIDO has established a UNIDO Subcontracting Partnership Exchange (SPX) which is a technical cooperation programme that aims to link the domestic enterprises in developing countries to the supply chains of large domestic enterprises or international companies. The relevant local Supplier Industries and their members are hosted on the UNIDO SPX.

A full copy of the Transnet CSDP document can be downloaded from the following website: www.rhsupplychain.com while further information on CSDP can be obtained from www.dpe.gov.za and www.unido.org/spx.

Conclusion

CSDP responses will be judged on their ability to leverage Transnet long term procurement in order to promote localisation in order to increase the capability and capacity, responsiveness and competitiveness of local supplier industries. CSDP Programmes ability to promote skills transfer, localisation and the sustainability of the venture will all be taken into account during evaluation.

Appendix A

Definitions

Business Case: The Business Case is a standard justification for capital expenditure that the Business Unit completes and submits to the relevant approval body for authorization. The business case provides justification for undertaking a project or activity, in terms of evaluating the benefit, cost and risk of alternative options and rationale for the preferred solution. Its purpose is to obtain management commitment and approval for investment in the project. The business case is owned by the sponsor.

Business Unit (BU): A Transnet Business Unit (BU) is one of the group companies making up Transnet such as TCP, TFR, TPT, TNPA, TPL and TRE.

Capital Leakage: This normally occurs due to payment for goods or services that are sourced offshore with the resultant outflow of capital from the local South African economy into foreign economies.

Competitive Supplier Development Program (CSDP): A procurement practice that contributes toward competitiveness by leveraging SOE procurement spend to develop a local supplier base indirectly by placing influence on the multinational to develop downstream suppliers. CSDP results in a supply base that can:

- Ensure security of supply to the SOE
- Contribute to the reduction in operating cost of the SOE
- Reduce the reliance on imported products
- Enhance the local IP and skills base
- Eventually be competitive in the international market leading to increased exports

Corporate Social Investment (CSI): Corporate social investment activities focus on establishing social infrastructure and contributing to the upliftment of communities.

CSDP Evaluation Themes:

Each CSDP proposal should take three major themes into consideration in their submission:

Localisation: Localisation broadly refers to but is not limited to upgrade and manufacture of components, system/sub-systems that the supplier is willing to produce locally.

Sustainability: This section refers to the nature/type of CSDP opportunity that the supplier is willing to engage in and the objectives of their CSDP proposal. In this section the supplier is required to describe their CSDP initiative and show how its design and plan maximises socio-economic benefits. The design should take into account the capability and capacity, responsiveness and competitiveness of local supplier industries (business environment) as well as the likely risks that might be faced and what actions the supplier is willing to take to mitigate these risks as well as sustainability of the commitment once the supplier contract ends.

Skills transfer: This section refers to the skills that will be transferred both to Transnet and the local industry. In this section all types of training, bursaries/scholarships and knowledge related to maintenance should be outlined. For all types of skills transfer please state the skills set that will be developed, the value of this training and the accreditation (if any). All training needs should be aligned to Transnet business needs or should build tangible capability within the local industry to increase competitiveness and capability.

Industrial Complexity: Industrial complexity can be categorized as having a shallow, intermediate or deep level of industrial complexity according to the following criteria:

- **Shallow industrial complexity spend items** (i.e. construction valued at R40 billion over five years): The sources of supply are already based locally and this should best be supported through supplier development actions, such as Enterprise Development and increasing the Preferential Procurement drive.
- **Intermediate industrial complexity spend items** (i.e. assembly, equipment components, parts manufacture and maintenance and repair): The sources of supply are international firms which own the design, however there is local potential to manufacture to design. Part of Transnet's five-year spend on rolling stock and port equipment (and to a lesser extent infrastructure and pipeline) falls into this category, this being best suited to CSDP opportunities.
 - Changing the source of supply to the local market on these items will be subject to certain barriers to entry. Such barriers should be overcome by the private sector investing in capacity and capability upgrades to become part of an OEM's localised supply chain. A prerequisite to such private-sector investments is that SOEs should execute their procurement in such a way as to underwrite (indirectly) their tier-2 suppliers' investments, by a clear long-term contractual commitment with an overseas OEM, containing localisation obligations to local suppliers investing in capacity and capability upgrades.
- **Deep industrial complexity spend items** (eg. improving local manufacture of tug boats, manufacture of diesel engines or establishing an OEM for locomotives): The localisation of deep industrial complexity related commodities will require joint private- and public-sector long-term investment to overcome the even higher barriers to entry. Transnet's first CSDP will not be looking at such opportunities.

Local Content: Refers specifically to items that are manufactured locally in South Africa. Should the "local" supplier import a portion of their product and then add a certain amount of value to it, only the value add in South Africa can be regarded as local content.

National Industrial Participation Program (NIPP): The National Industrial Participation Programme (NIPP) is an import-offset programme (for government agency expenditure) managed by the Department of Trade and Industry (DTI). Under the NIPP programme all imports costing more than \$10 million, require the supplier to work with the DTI to invest the equivalent of 30% of the value of the purchase in a non-related industry.

OEM /Multinational: refers to Original Equipment Manufacturer who own the intellectual property rights and patents for the equipment which they sell and service.

Socio-economic Development: South Africa is a developing country that is facing skills shortages and high unemployment rates. Socio-economic development not only takes a business' financial bottom line into account but the social and environmental impact as well by focusing on job creation, poverty reduction and increasing national value add.

SOE: refers to state owned enterprises that are a self sustaining business that will manage their own economic interests and ensure profitable returns and report to the government shareholder department.

Appendix B

Commodity Breakdown

Capital Equipment ▶ Focus Areas + tiers ▼			Straddle Carriers	Ship to shore cranes	Rubber Tyre Grantry Cranes	Mobile Harbour Cranes	Dredgers	Locomotives (D, E, D-E, MC)	Tugboats	Wagons	Opportunity for CSDP	Subsectors on tier one and 2	Subsectors Identified for CSDP Discussions
tier one	tier two	tier three											
Engines	Alternator		X	-	X	X	X	X	X	-		38	Electricity distribution and control apparatus
Engines	Battery System	Main battery, backup system, regeneration	X	-	X	X	X	X	X	-		40	Accumulators, primary cells and primary batteries
Engines	Engine Block	Steel, casting	X	-	X	X	X	X	X	-		29	Basic iron and steel products
Engines	Fuel Injection	injector valves	X	-	X	X	X	X	X	-		49	Parts and accessories
Engines	Exhaust	steel, welding	X	-	X	X	X	X	X	-		49	Parts and accessories
Engines	Auxiliary diesel alternator		X	-	X	X	X	X	X	-		38	Electricity distribution and control apparatus
Engines	Block Valves		X	-	X	X	X	X	X	-		29	Basic iron and steel products
Engines	Cooling system		X	-	X	X	X	X	X	-		32	Other fabricated metal products
Steering Mechanism	Steering Axle		X	-	X	X	X	X	X	-		32	Other fabricated metal products
Steering Mechanism	Steering wheel		X	-	X	X	X	X	X	-		29	Basic iron and steel products
Braking System	Air brakes		-	-	-	-	-	X	-	X		49	Parts and accessories
Braking System	vacuum brakes		-	-	-	-	-	X	-	X		49	Parts and accessories
Braking System	Parking brake		X	X	X	X	X	X	X	X		49	Parts and accessories
Braking System	Disk Brake		X	-	X	-	-	-	-	X		49	Parts and accessories
Braking System	Brake Blocks		X	-	X	-	-	X	-	X		32	Other fabricated metal products
Braking System	Brake shoes and drums		X	X	X	X	-	-	-	-		32	Other fabricated metal products
Braking System	Hoist brake		X	X	X	X	X	-	X	-		49	Parts and accessories

Figure 2: Sub Sector Details (1)

Capital Equipment ▶ Focus Areas + tiers ▼			Straddle Carriers	Ship to shore cranes	Rubber Tyre Granary Cranes	Harbour Cranes	Dredgers	Locomotives (D, E, D-E, MC)	Tugboats	Wagons	Opportunity for CSDP	Subsector's on tier one and 2	Subsectors Identified for CSDP Discussions
tier one	tier two	tier three											
Electrical System	Cable		X	X	X	X	X	X	X	-		39	Insulated wire and cables
Electrical System	Alternator		X	X	X	X	X	X	X	-		38	Electricity distribution and control apparatus
Electrical System	Lighting	Bulbs	X	X	X	X	X	X	X	-		41	Electric lamps and lighting equipment
Electrical System	Lighting	Switches	X	X	X	X	X	X	X	-		41	Electric lamps and lighting equipment
Electrical System	Lighting	Conductor	X	X	X	X	X	X	X	-		41	Electric lamps and lighting equipment
Electrical System	Auxiliary generator		X	X	X	X	X	X	X	-		37	Electric motors, generators, transformers
Electrical System	Power Units		X	X	X	X	X	X	X	-		38	Electricity distribution and control apparatus
Electrical System	Electrical boxes		X	X	X	X	X	X	X	-		42	Other electrical equipment
Electrical System	Auxiliary Switchboard		X	X	X	X	X	X	X	-		42	Other electrical equipment
Propulsion System	Brass Impellers		-	-	-	-	X	-	X	-		30	Non-ferrous metal products
Lifting Mechanisms	Cable Chain		X	X	X	X	X	-	X	-		29	Basic iron and steel products
Lifting Mechanisms	Load sensor cells		X	X	X	X	X	-	X	-		38	Electricity distribution and control apparatus
Lifting Mechanisms	Lifting loom	Frame	X	X	X	X	-	-	-	-		31	Structural metal products
Lifting Mechanisms	Lifting loom	Suspension	X	X	X	X	-	-	-	-		31	Structural metal products
Lifting Mechanisms	Lifting loom	Hydraulics	X	X	X	X	-	-	-	-		34	Special purpose machinery
Lifting Mechanisms	Rope sheaves		X	X	X	X	X	-	X	-		29	Basic iron and steel products
Lifting Mechanisms	Cranes		X	X	X	X	X	-	X	-		33	General purpose machinery
Lifting Mechanisms	Skew Transfer		X	X	X	X	X	-	X	-		50	Other transport equipment
Lifting Mechanisms	Yoke		X	X	X	X	X	-	X	-		29	Basic iron and steel products

Figure 3: Sub Sector Details (2)

Capital Equipment ▶ Focus Areas + tiers ▼			Straddle Carriers	Ship to shore cranes	Rubber Tyre Grantry Cranes	Mobile Harbour Cranes	Dredgers	Locomotives (D, E, D-E, MC)	Tugboats	Wagons	Opportunity for CSDP	Subsectors on tier one and 2	Subsectors Identified for CSDP Discussions
tier one	tier two	tier three											
Transmission System	Draw gear		X	X	X	X	X	X	X	-		49	Parts and accessories
Transmission System	Gearbox	gears, plates	X	X	X	X	X	X	X	-		49	Parts and accessories
Transmission System	Clutch		X	X	X	X	X	X	X	-		49	Parts and accessories
Transmission System	Levers		X	X	X	X	X	X	X	-		49	Parts and accessories
Mechanical fluid transfer	Valves		X	X	X	X	X	X	X	X		32	Other fabricated metal products
Mechanical fluid transfer	Pumps		X	X	X	X	X	X	X			33	General purpose machinery
Mechanical fluid transfer	Compressors		X	X	X	X	X	X	X	-		33	General purpose machinery
Mechanical fluid transfer	Cylinder		X	X	X	X	X	X	X	X		29	Basic iron and steel products
Mechanical fluid transfer	Miscellaneous Marine equipment		-	-	-	-	X	-	X	-		34	Special purpose machinery
Mechanical fluid transfer	Piping		X	X	X	X	X	X	X	X		31	Structural metal products
Bogies	Axles		-	X	-	-	-	X	-	X		31	Structural metal products
Bogies	Wheels		-	X	-	-	-	X	-	X		31	Structural metal products
Bogies	U-tube		-	X	-	-	-	X	-	-		29	Basic iron and steel products
Bogies	Canonbox		-	X	-	-	-	X	-	-		29	Basic iron and steel products
Bogies	Bearing		-	X	-	-	-	X	-	X		32	Other fabricated metal products
Bogies	Traction Motor		-	X	-	-	-	X	-	-		37	Electric motors, generators, transformers
Bogies	Pinion gear		-	X	-	-	-	X	-	-		49	Parts and accessories
Bogies	Sideframe		-	X	-	-	-	X	-	X		31	Structural metal products
Bogies	Springs		-	X	-	-	-	X	-	X		32	Other fabricated metal products

Figure 4: Sub Sector Details (3)

Capital Equipment ▶ Focus Areas + tiers ▼			Straddle Carriers	Ship to shore cranes	Rubber Tyre Gantry Cranes	Mobile Harbour Cranes	Dredgers	Locomotives (D, E, D-E, MC)	Tugboats	Wagons	Opportunity for CSDP	Subsectors on tier one and 2	Subsectors Identified for CSDP Discussions
tier one	tier two	tier three											
Locking Mechanism	Twist Locks		x	x	x	x	-	-	-	x		34	Special purpose machinery
Hydraulic System	Hydraulic hoses		x	x	x	x	x	x	x	-		25	Petroleum, chemical products, rubber and plastic products
Hydraulic System	Hydraulic Pumps		x	x	x	x	x	x	x	-		33	General purpose machinery
Structure	Body Frame		x	x	x	x	x	x	x	x		31	Structural metal products
Structure	Chassis	Beams, frames, steel welding	x	x	x	x	x	x	x	x		31	Structural metal products
Structure	Steps and Ladders	steel, welding	x	x	x	x	x	x	x	x		31	Structural metal products
Structure	Underframe	steel, welding	x	x	x	x	x	x	x	x		31	Structural metal products
Structure	Windscreen		x	x	x	x	x	x	x			26	Glass and glass products
Structure	Suspension system	steel, welding	x	x	x	x	x	x	x	x		31	Structural metal products
Structure	Platforms	steel, welding	x	x	x	x	x	x	x	x		31	Structural metal products
Structure	Guard Rails	steel, welding	x	x	x	x	x	x	x	x		31	Structural metal products
Structure	Columns	steel, welding	x	x	x	x	-	-	-	-		31	Structural metal products
Structure	Sill Beams	steel, welding	x	x	x	x	x	x	x	x		31	Structural metal products
Structure	Side Beams	steel, welding	x	x	x	x	x	x	x	x		31	Structural metal products

Figure 5: Sub Sector Details (4)

Capital Equipment ▶ Focus Areas + tiers ▼			Straddle Carriers	Ship to shore cranes	Rubber Tyre Gantry Cranes	Mobile Harbour Cranes	Dredgers	Locomotives (D, E, D-E, MC)	Tugboats	Wagons	Opportunity for CSDP	Subsectors on tier one and 2	Subsectors Identified for CSDP Discussions
tier one	tier two	tier three											
Control + Instrumentation System	Micro computers		X	X	X	X	X	X	X	-		45	Professional equipment
Control + Instrumentation System	PLC Systems		X	X	X	X	X	X	X	-		45	Professional equipment
Control + Instrumentation System	Field Instruments		X	X	X	X	X	X	X	-		45	Professional equipment
Control + Instrumentation System	Levers		X	X	X	X	X	X	X	-		29	Basic iron and steel products
Control + Instrumentation System	Hydraulic control		X	X	X	X	X	X	X	-		38	Electricity distribution and control apparatus
Facilities	Toilets		-	-	-	-	X	X	X	-		27	Non-metallic mineral products
Facilities	Mess rooms		-	-	-	-	X	X	X	-		35	Household appliances
Facilities	Heating system		-	-	-	-	X	X	X	-		33	General purpose machinery
Filtration System			X	X	X	X	X	X	X	-		33	General purpose machinery
Ventilation System			X	X	X	X	X	X	X	-		33	General purpose machinery
Airconditioning System			X	X	X	X	X	X	X	-		35	Household appliances
Ignition Appliance			X	X	X	X	X	X	X	-		334	Total Manufacturing
Communications System			X	X	X	X	X	X	X	-		44	Radio, television and communication apparatus

Figure 6: Sub Sector Details (5)

Appendix C:

Different types of CSDP localisation / industrialisation initiatives exist

Transnet has identified three types of CSDP initiatives that might arise (or a combination thereof):

Local Expansion: this type of opportunity will occur when a supplier, based on the increased Transnet spend, is able to expand current capability that not only meets the Transnet requirement but that also allows it to take on other customers. It will mostly involve a foreign company partnering and investing with a local (preferably empowerment status) entity. These types of interventions are mainly focused on maintenance and repair capabilities but they should ideally also include component manufacture/upgrade for the local market. This should also be supported by targeted skills development for both Transnet and local industry.

Increased Export Capacity: in this instance, a local manufacturer or foreign entity expands capacity to provide Transnet requirements and overseas demand. This will usually be done at the company's own expense and risk. Our award allows the supplier to project demand, but also to provide a stable economic view for foreign investment. These types of opportunities generally focus on component manufacture/upgrade and system/sub-system manufacture but will also require targeted skills training for both Transnet and the local industry.

Multinational Manufacturing: this opportunity is specifically aimed at promoting South African businesses as offshore suppliers of choice for multinational companies. We would broker deals with foreign suppliers to partner with local manufacturers who are capable of competitively manufacturing their capital equipment spares under licence, thus ensuring local source of supply for spare parts and an increased export base. These types of opportunities generally focus on component manufacture/upgrade and system/sub-system manufacture but require targeted skills training to ensure that capabilities are built in the local industry.

In short, CSDP initiatives should be designed to maximise local industry development but this will intrinsically be bound to the capability and capacity, responsiveness and competitiveness of local supplier industries (business environment).

Understanding the industrial complexity of CSDP opportunities

Transnet together with other agencies will rank items (commodities) to give the supplier an understanding of the complexity, suitability and resources required by multinationals to localise parts of their supply chain. Each localisation opportunity can be evaluated in terms of its ability to be a CSDP opportunity.

The degree of industrial complexity must be determined and the relevant stakeholders engaged

	Equipment complexity	Examples	Intervention requirements	Government role	
Globally leading		<ul style="list-style-type: none"> Locomotive OEM 	<ul style="list-style-type: none"> Not commercially viable in short-medium term Multi-decade learning curve 	<ul style="list-style-type: none"> Government majority ownership may be required 	Investing and Facilitating
Advanced		<ul style="list-style-type: none"> Diesel Engines 	<ul style="list-style-type: none"> Government/IDC support necessary for commercial viability Private sector would not invest independently 	<ul style="list-style-type: none"> Integrated government support in skills, R&D and varying degrees of direct financial support Certainty of programme 	
Intermediates		<ul style="list-style-type: none"> Equipment Components Parts Manufacture Assembly Maintenance and Repair 	<ul style="list-style-type: none"> Investment requirements within capability of company balance sheets, but clear long term commitment required 	<ul style="list-style-type: none"> Ensure SOE procurement planning and execution to enable long term private sector investment (e.g. CSDP) 	Facilitating
Shallow		<ul style="list-style-type: none"> Construction Structural steel 	<ul style="list-style-type: none"> Within current industry capability Moderate capacity expansion required Sufficient notice required 	<ul style="list-style-type: none"> Ensure SOE engagement and information sharing with industry Support for coherent industry upgrade 	

Figure7: Industrial complexity

Shallow industrial complexity spend items: The sources of supply are already based locally and may require moderate capacity expansion.

Intermediate industrial complexity spend items The sources of supply are international firms which own the design but there is local potential to manufacture. Changing the source of supply to the local market on these items will be subject to certain barriers to entry. Such barriers should be overcome by the private sector investing in capacity and capability upgrades to become part of an multinational's localised supply chain. In these cases Transnet will execute its procurement in such a way as to underwrite (indirectly) their tier-2 suppliers' investments, by a clear long-term contractual commitment with an overseas multinational, containing localisation obligations to local suppliers investing in capacity and capability upgrades.

Advanced complexity spend items The localisation of advanced industrial complexity related commodities will require long-term support from the public-sector (IDC, dti, etc.) to overcome barriers to entry but has potential for sustainability if adequate long-term investment support is received. The investment in these commodities is a lot riskier and therefore a selected few (if any) will be supported by Transnet.

Globally leading items: These are items that require multi-decade learning curves and require large government intervention and support. Due to the extensive support that this requires these opportunities will not be pursued by Transnet.

Transnet recognises that not every purchasing opportunity will offer an opportunity for localisation or industrialisation of the South African industrial base, in these cases Transnet will pursue opportunities around Skills Transfer and Maintenance and Repair capabilities.

Transnet's sphere of influence

Figure 8 shows how Transnet will engage with multinationals to develop the local industry. Transnet will use its sphere of control to secure supply and reduce costs through multinationals. This will be achieved through contracting the multinational who would then be required to stretch its sphere of control to engage local suppliers. Transnet will encourage multinationals and multinational buyers to promote certified local suppliers as an attractive source of supply to the multinationals predominantly international supply chains. The rationale for this is that Transnet does not wish to be prescriptive so that it results in uncompetitive industries being supported.

For CSDP to be successful requires that each localisation opportunity that is pursued is sustainable. A localisation opportunity is sustainable if there is sufficient demand over the long-term providing sufficient time for the supplier to build the capability and skills to take advantage of this demand. This long-term demand can stem from either local (Transnet or Transnet together with other South African industries) or global demand (multinationals demand globally or component demand globally). A supplier can only take advantage of this demand if it can develop the skill sets and capability through ongoing R&D and product improvement processes to keep abreast of the changing needs of its customers.

Therefore Transnet's approach to CSDP is a procurement-to-procurement approach. Transnet will use its procurement influence to help local companies extend/develop their global reach by influencing the multinationals procurement of downstream components and services. In essence, Transnet's CSDP initiative facilitates an environment where local suppliers have an opportunity to improve their capability and capacity through globally competitive companies by giving them the potential opportunity to become a part of the multinationals global supply chain or the global supply chain.

Transnet will use its sphere of control to influence local development

Transnet's CSDP will primarily focus on multinationals to who will then be required to influence development of local suppliers in downstream industries

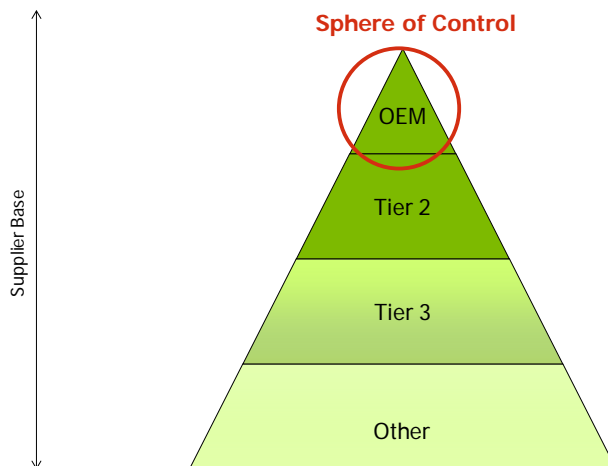


Figure 8: Sphere of influence