

Moment of truth for arms offset deals
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THE long-overdue annual report on arms offset projects to be presented to Parliament tomorrow is expected to reveal whether arms suppliers are delivering thousands of promised jobs in nondefence investments.

The trade and industry department report is expected to state whether suppliers of equipment, such as aircraft and submarines, met an April deadline to implement projects to create jobs and boost empowerment, among other things.

Suppliers committed to specified projects in the defence and nondefence sectors in exchange for securing government contracts worth R21bn, with a possible extension to R29bn.

Government claimed that its controversial arms-procurement programme would create about 65000 jobs and investments worth between R75bn and R110bn through offset projects when it signed the arms deal five years ago.

The deal was touted as the trigger for SA's biggest foreign investment windfall since 1994.

The deadline was in April, but government has been silent on the outcome for the past seven months.

The annual offset-projects report should have been delivered to Parliament in June. The delay has fuelled fears, which existed from the outset, that the offset projects would not yield the benefits government promised.

Government has stated, however, that suppliers failing to meet the April deadline would incur heavy penalties - and these should also be documented in the report.

Many are hoping for this year's nondefence offset-project report to improve on the 2003 report, which was criticised as inaccurate and lacking detail and transparency.

The credibility of the 2003 report was dashed when several projects it listed were found not to have materialised - despite the report stating it was "a detailed report on actual projects that have been facilitated". For example, it claimed that a planned stainless-steel precision strip mill in Western Cape would create 105 jobs, and said it had got under way in 2003 - but it had not.

And at least one project, a condom factory in Eastern Cape - which the report said would create 520 jobs - has failed.

Both were projects by the German Submarine Consortium, which together with the German Corvette Consortium and aircraft makers BAE Systems/Saab, are the largest contract winners in the arms deal.

The new report should contain detailed information on progress with each supplier's offset projects, weighed against their obligations. Details of offset projects should include the value of each investment and the number of jobs created to date.

The report should also state how suppliers' offset claims are calculated. Recently, for example, BAE Systems claimed it formed a strategic alliance worth \$ 100m with South African aircraft components maker Aerosud, which has annual revenues of about \$ 25m.

An Aerosud director last week could not explain how the \$ 100m was arrived at. BAE Systems/Saab said this was the value of benefits it would pass on to Aerosud, and included not only actual contracts but also benefits such as training and transfer of technical

knowledge.

The report should explain how values such as these are arrived at, and how they are monitored.

Last year's report was unclear on the arms-offset programme, instead of providing a critical analysis substantiated by figures.