COEGA AND THE ARMS PROCUREMENT DEAL: A CHRONOLOGY

December 1995 °© Joe Modise comes under heavy criticism from within the ANC and Cabinet for his attempts to gain support for the purchase of 4 corvettes at a cost of R2.5billion (Mail and Guardian, 13 December 1995).

February 1996 °© April 1998 °© Defence Review is conducted by the Ministry of Defence. Part of the purpose of this review is to establish new equipment requirements for the SANDF. As a result of the Review, Armscor, the Department of Defence°Øs acquisition organization, issues requests for tenders to foreign suppliers to meet the South African National Defence Force°Øs new equipment requirements. It notifies all potential foreign suppliers of government°Øs policy on offsets and requests them to submit offset proposals along with their tenders to supply equipment.

May 1997 °© Parliamentary defence committee head, Tony Yengeni, criticizes the Ministry of Defence for keeping the committee in the dark about its plan to purchase corvettes. He was responding to comments by Minister of Defence, Joe Modise, that he might award a contract for the purchase of corvettes to Britain. A German consortium, also interested in supplying the boats, complained that it had not been invited to match the British offer (Mail and Guardian, 23 May 1997).

4 July 1997 °© The Freight and Trading Weekly reports that a special Cabinet Investment Committee chaired by the Minister of Trade and Industry has given its backing to the Coega Industrial Development Zone. Department of Trade and Industry (DTI) special projects director, Paul Jourdan, says in respect of the decision to back Coega that government is looking to private enterprise to kick-start the project by agreeing to fund it on a built-operate and transfer (BOT) basis. °ÆAn investor would be responsible for raising finance, building the port and the necessary infrastructure and then operating it for their own profit for a fixed period, after which ownership would be transferred to the state°Ø.(Freight and Trading Weekly, 4 July 1997).

December 1997 °© Coega Harbour Development Bill approved by Parliament. A department of Trade and Industry source tells journalists that details still need to be finalized over who will obtain the concessions to run the Coega harbour and whether Portnet or a private organization would be responsible for constructing the port. Gill Marcus, Deputy Minister of Finance, on a visit to Port Elizabeth, says that °Ægovernment would consider advancing 10% of the costs of a project like Coega. The remaining money would come from the private sector, probably on a build-operate-transfer scheme°Ø she says (Freight and Trading Weekly, 12 December 1997 edition).

11 February 1998 °©Armscor presents a conference on Countertrade to discuss the processes for Defence Industrial Participation and Non-defence Industrial Participation for arms procurement (this is prior to the Defence Review even being approved). Part of the purpose of the workshop is to introduce the local defence industry to the international arms suppliers bidding for the arms procurement package (AMD Annual Report 1997/98).

2 April 1998 °© P&O Nedlloyd sales director, Richard Burmeister, criticizes government for not taking Coega seriously. He lashes out at the °Æbureaucratic°Ø approach adopted by Portnet and Spoornet to the building of the proposed Coega harbour. Burmeister calls for the immediate building of the harbour saying that South Africa needs another container port at Coega and the development of the industrial development zone should be seen as a separate issue. Portnet says it is waiting for legislation and is not the only party to decide on the future of the Coega port (Daily Dispatch, 3 April 1998).

18 June 1998 °© Cabinet endorses the first stage of the Defence Review and gives the Department of Defence the green light to proceed with its practical planning. The decision supports proposals for new army, navy and air force equipment. It points out that further planning and decisions will take place at Ministerial and inter-departmental levels to discuss what purchases are fiscally viable (AMD Annual Report 1997/98).

July 1998 °© The Draft Development Zone Enabling Act is presented to Parliament. Government°Øs stated objective in establishing a Spatial Development Initiative
(SDI) Programme is °Æto encourage private sector involvement in the provision of infrastructure in areas where there is a large amount of unutilized potential°Ø. According to the department of Finance °ÆThe initiatives are to be financed primarily by the private sector, with minimal government involvement°Ø (www.finance.gov.za).

August 1998 °© The head of special projects at the Department of Trade and Industry, Paul Jourdan, suggests as part of a °Ægeneric presentation°Ø on Spatial Development Initiatives (SDI°Øs) and Industrial Development Zones (IDZ°Øs) that one of the key projects for the Coega IDZ will be the construction of a stainless steel flat products plant worth R6billion by Ferrostaal. Another key project will be a galvanized steel mill worth R1.5billion to be constructed by Thyssen. He links both projects to the arms procurement offsets. He also refers to a Billiton (Gencor) and Matsui proposal to build a R3.4billion zinc smelter as key project for the Coega IDZ (www.sdi.org.za).

September 1998 °© The minister of Finance, Trevor Manual, speaking at a Building Industries Federation of South Africa (BIFSA) conference in Port Elizabeth says that R20bn worth of projects have been lined up for the Coega harbour and Industrial Development Zone (EastCape Online, September 1998).

October 1998 °© A pro-Coega lobby (including members of the Port Elizabeth City Council, local business and members of the Eastern Cape Provincial Government) are reported as criticizing national government for not taking the Coega project seriously. They say that the government°Øs inaction on Coega could lose the anchor tenant for the project, Billiton°Øs R2.7bn zinc refinery. The same report says that government has been working hard to promote Coega as a °Ædone deal°Ø. It cites the Minister of Finance°Øs Port Elizabeth claim that projects totaling R20bn had been lined up for Coega. It also cites Paul Jourdan as telling Parliament that one of the deals lined up for Coega includes the construction of a steel mill as part of the counter-trade deal for the purchase of military hardware (CBN Archive °© October 1998, www.cbn.co.za).

18 November 1998 °© Deputy Minister of Defence, Ronnie Kasrils, says during a news briefing that the approval of the first phase of the Defence Review means that government can now focus on the acquisition of defence equipment. He announces that these purchases will be tied to defence and trade cooperation programmes with international partners °Æwhich will provide for substantial investment in our economy°Ø He quotes deputy President Thabo Mbeki as saying it is possible °Æto handle these acquisitions outside the national budget°Ø. Kasrils says that °Æhese agreements will enormously benefit our GEAR Strategy by creating jobs thereby giving our economy and industry a major boost. It is now no longer a question of °∞guns or butter, houses or corvettes°± but °∞guns and butter, houses and corvettes, development and defence°±°Ø (Achievements of the Ministry of Defence, www.anc.org.za).

18 November 1998 °© Cabinet decides that negotiations should proceed with the following preferred bidders:

The German Frigate Consortium (including Blohm and Voss, Howaldtswerke-Deutsche Werft, and Tyssen Rheinstaal) for the supply of naval frigates;

The German Submarine Consortium (including Howaldtswerke-Deutsche Werft, Thyssen Nordseewerke and Ferrostaal);

The Italian helicopter manufacturer Augusta;

British Aerospace/SAAB (a British and Swedish consortium) for the provision of aircraft.

Cabinet also announces that a Negotiation Team is to be formed to be overseen by a Ministerial Committee, which would report to deputy President Thabo Mbeki. The deputy President°Øs special economic advisor throughout this period is Moss Ngoasheng.

The Ministerial Committee consists of the Minister of Defence, Joe Modise, the Minister of Trade and Industry, Alec Erwin, the Minister of Finance, Trevor Manual and the Minister of Public Enterprises Stella Sigau.

The Negotiating Team is composed of Jayendra Naidoo (Nedlac) who appointed as chairperson, Vanan Pillay (Head of Industrial Participation Programme, DTI), Paul Jourdan (special projects, DTI), Roland White (Department of Finance), Llew Swan (Armscor) and Shabir Shaik (Chief of Acquisitions, Department of Defence).

Subsequently an Affordability Team is appointed (from the department of Finance) to make an assessment of the financial and economic impact of the arms procurement deal on the South African Economy.

19 November 1998 °© It is announced that the submarine programme will generate industrial offsets worth R30billion and create 16 251 jobs (Business Day, 19 November 1998).

26 November 1998 °© Vanan Pillay, the acting director for industrial participation and procurement in the Department of Trade and Industry, and a member of the arms procurement negotiating team, tells parliament that a °Æfair amount°Ø of the industrial projects connected with the arms

deal are °Æearmarked for the Eastern Cape°Ø (Daily Dispatch, 27 Novemebr 1998).

February 1999 °© Alec Erwin, the minister of Trade and Industry, on a visit to Port Elizabeth, berates the local media and business community for speculating about the future of Coega and denies there has been a lack of information about the project. He confirms that Pepi Silinga had been appointed as chief executive officer of the Coega Authority. Erwin described Coega as °Æa sophisticated approach to development°Ø. He says °Æthis is not the old government thinking where you put up infrastructure and say °Æcome and invest°Ø°Ø (°ÆPressure builds for Coega°Ø, EastCape Online, February 1999).

4 February 1999 °© Paul Jourdan, the special projects director at the Department of Trade and Industry, is reported as saying that the Coega IDZ is °Æfar from dead°Ø. He says that °Æall s°Æhow-stoppers°Ø threatening anchor projects had been dealt with at cabinet level and there are several °¶ national and international investors interested in Nqura (Coega)°Ø. He says that the DTI is in the process of forming the Coega Development Corporation (CDC) and was appointing a high caliber CEO to run it.

Don Maclean, the executive director of the Centre for Investment and Marketing in the Eastern Cape (CIMEC) reportedly says that superior infrastructure and services within IDZ°Øs would not be enough to attract anchor tenants. However new investors could get °Æa tax holiday of between seven and ten years°Ø. Billiton is widely reported to have pulled out of the deal by this point in time (Daily Dispatch, 4 February1999).

February 1999 °© Newly appointed chief executive officer, Pepi Silinga, says that the Coega Implementing Authority is being converted into a registered private company, the Coega Development Corporation (CDC).Ä He says °Æthe Coega industrial development project is going ahead and will, in line with national policy, be eligible for, amongst others, a six-year tax holiday; a one stop customs excise shop; a special labour dispensation and a world class purpose built infrastructure°Ø (°ÆOfficial silence broken on Coega, EastCape Online, February 1999).

March 1999 °© Cabinet approves plans for establishing IDZ°Øs. The first such IDZ to be established will be Coega.

18 May 1999 °© Pepi Silinga, the CEO designate of the Coega Development Corporation (CDC) tells the Port Elizabeth Regional Chamber of Commerce that the Coega project °Æhas been nominated as a preferred area for industrial offsets flowing from [the] military procurement process. It is our considered view that if our government buys the corvettes, submarines and the fighter helicopters °¶ Coega is a dream that will become a reality. It is an open secret that my colleagues °¶ have succeeded in whetting the appetite of German investors. As part of its bid for the R29bn arms deal, a German submarine consortium has offered an investment of R6.26bn which would create more than 16 000 jobs in a stainless steel plant which could be cited at Coega°Ø.

Alfred da Costa, the Port Elizabeth Chamber of Commerce CEO, tells reporters after the meeting °Æthe offset deal is one of the key factors on which the Coega project hinges°Ø. According to da Costa °ÆNgoasheng [the economic advisor to deputy President Thabo Mbeki] has assured us that government is pursuing this option. Negotiations should be completed by the end of the year and by then we will have a good idea as to which investors will be coming to the industrial development zone°Ø (Business Day, 18 May 1999).

18 May 1999 °© Franz Freiherr von Redwitz, Ferrostaal project manager, says that Coega°Øs stainless steel mill is ready to roll, with the only hold up being the signing of the deal to buy the submarines. He says °ÆI°Øm ready to go. But I have to keep my foot on the brake until the military offset deal is signed°Ø (Daily Dispatch, 18 May 1999).

13 June 1999 °© Joe Modise announces that he has signed a draft agreement with the German Submarine Consortium to purchase 3 submarines for R4.5billion. (The Affordability Team has yet to present its findings to the Ministerial Committee and Cabinet by this point). In return he announces that the consortium has signed counter-trade deals worth R19billion. Ferrostaal would be responsible for the export marketing, financial and trade agreements, including the building of a stainless steel mill at Coega (°ÆSubmarine deal resurrects Coega°Ø, Freight and Trading Weekly, 25 June 1999 edition).

13 June 1999 °© Business Day reports that the Negotiating Team and the German consortium have initialed a draft agreement to purchase 3 submarines in return for a R19bn steel plant °Æprobably at Coega°Ø. According to Jayendra Naidoo, the Negotiating Team leader, the stainless

steel plant would create 3000 jobs during construction and 1000 permanent jobs (Business Day, 14 June 1999).

27 July 1999 °© Ron Haywood, the Chairperson of Armscor, tells a defence summit in Sandton that the defence industry stands to gain at least R15bn in investments as a result of the government°Øs arms procurement while another R95bn will °Ægo to non-defence activities such as the construction of a harbour at Coega in the Eastern Cape°Ø. Haywood says °ÆIn the Eastern Cape there will initially be 3000 jobs for local people, and when the stainless steel factory is commissioned, it will provide work for 1000 people°Ø (The Star, 28 July 1999).

5 August 1999 °© Department of Trade and Industry, IDZ regulations manager, Richard Goode, says that IDZ developers will have to prove their ability to build IDZ°Øs, attract tenants and make them financially viable. He says that a regulatory framework governing IDZ°Øs is being finalized and all IDZ authorities will have to apply to the Manufacturing development Board for licenses to operate (Daily Dispatch, 5 August 1999).

9 August 1999 °© the Affordability Team delivers its report to the Ministerial Committee (and presumably deputy President Thabo Mbeki). It reports that the arms procurements are likely to have a negative impact on expenditure by other government departments. Firstly because °Æexpenditure will be shifted from other government departments to Defence for the packages. Secondly, to the extent that the overall pool of funds available to government is likely to grow in line with growth in the economy °¶ then any additional expenditure on the defence packages will reduce the portion of these funds which would otherwise have been available to other departments°Ø.

In terms of the financial impact of the procurement deal the Affordability Team advises that °ÆThe foreign borrowings required to fund the procurements would increase the SAG°Øs [South African Government°Øs] exposure to forex [foreign exchange] risks°Ø. It also points out that °Æhe procurements could complicate South Africa°Øs ability to raise funds on the international bond markets.

The Affordability Team also draws the Ministerial Committee°Øs attention to two °Æintrinsic risks°Ø which will impact directly on affordability °Ænon-materialisation of the NIP/DIP benefits and interest rate movements°Ø after the packages has been agreed to.Ä It warns that °ÆThe South African government is fully exposed to the depreciation of the Rand against foreign currencies, which account for about 75% of the total purchase amount. There is no effective means of hedging the currency risk inherent in the procurements. There is clearly a risk that currency depreciation could be more rapid than anticipated °¶ Any deviations from these assumptions [that the exchange rate will remain stable] are for the account of government, with the obvious implication that the costs of the packages and their financing would be considerably higher than expected°Ø.

The Affordability Team also draws attention to the fact that the proposed procurements are premised on the assumption that the South African economy will grow by 3% per annum. °ÆIf this growth rate does not materialize, there will be less government revenue to fund the payments to which government is contractually committed. This will place undue pressure elsewhere in the budget°Ø.

The Affordability Team concludes its briefing to the Ministerial Committee by saying that the proposed arms procurement contains a number of risks °ÆThe analysis of these risks suggests that as the expenditure level increases these risks escalate significantly. In fact even expenditure of R16.5bn may create a situation in which government could be confronted by mounting economic, fiscal and financial difficulties at some future point [Editorial note: Remember that the eventual cost agreed by Cabinet was R29.9bn and has since been adjusted to R43bn]. Ultimately the decision about expenditure levels really constitutes a decision about government°Øs appetite for risk°Ø (All direct quotations from °ÆAffordability of arms procurements: Executive Summary°Ø, August 1999, document published in Democracy and the Arms Deal, IDASA, 15 May 2001).

10 September 1999 °© The new Minister of Defence, Patrick Lekota, reacts angrily to reports of corruption in the allocation of arms procurement contracts. The reports allegedly emanate from within the ANC. Lekota says he is satisfied that there is °Ænot a shred of truth°Ø in these allegations.

15 September 1999 °© Cabinet announces its decision on the strategic defence procurement. It has decided to purchase 9 Grippen and 12 Hawk aircraft from British Aerospace/SAAB (with an option to buy an additional 12 Hawks and 19 Grippens). It also agrees to purchase 4 corvettes from the German frigate consortium and endoreses Modise°Øs decision to purchase 3 submarines from the German submarine consortium. It says it will purchase 30 helicopters from the Italian helicopter manufacturer Augusta. It represents the cost of the equipment as °ÆR21.3bn over the next 8 years°Ø. It points out that if the option to procure the additional

equipment is exercised the cost will rise to R29.9billion over 12 years. The Cabinet press release makes no mention of the risks associated with the procurement, which were raised by the Affordability Team and presented to the Ministerial Committee. It concludes by saying °ÆCabinet is fully satisfied regarding the offset arrangements attached to this package, which will benefit the economy and advance the socio-economic interests of the country°Ø (GCIS, 15 September 1999).

16 September 1999 °© Jeff Radebe, the Minister of Public Enterprises, announces his ministry°Øs enthusiastic endorsement of the arms procurement programme. He says the state owned enterprise Denel will benefit °Æhandsomely°Ø from the deal as will Portnet and Spoornet. °ÆIn relation to the Coega project, Agusta, Thyssen and Ferrostaal all provide important elements of the industrial plan for the area°Ø (GCIS, 16 September 1999, reproduced on CDC website).

26 November 1999 °© The Coega Development Corporation (CDC) puts out a press release celebrating the signing of the arms procurement deal. The release reads °ÆThe unequivocal message in today°Øs signing of the contracts for the arms procurement programme is that °∞Coega is happening°±!°Ø. The release acknowledges that there has been legitimate skepticism about the Coega project since its inception in 1996 but adds that °ÆToday°Øs development removes the aura of uncertainty about the future of the Coega development zone°Ø. The CDC press release openly acknowledges that the viability of Coega project is dependent on the arms procurement deal and its offsets: °ÆBy linking the arms procurement programme to industrial initiatives at Coega, government has single-mindedly pursued a solution which will fundamentally and dramatically impact on the economy of the Eastern Cape and on the lives of the people of this region°Ø (°ÆCoega is happening°Ø CDC media release 11 November 1999).

12 December 1999 °© A range of South African and Swedish civil society and church groupings call on the South African government to reconsider its decision to spend billions of rands on arms purchases and ask government not to sign the contracts with the suppliers. It calls for an independent judicial inquiry into allegations of corruption around the deal and asks for full disclosure of information relating to the offset contracts (South African Council of Churches Public Policy Liaison Office, 12 December 1999).

13 April 2000 °© Saki Macozoma, the managing director of Transnet, announces that Transnet supports the creation of a deepwater port at Coega. Portnet will now take responsibility (and incur the costs) for the construction of the harbour. Macozoma says that the project will not only compliment South Africa°Øs marine infrastructure, but also to °Æpromote export oriented manufacturing capability°Ø. He says °Æit is our pleasure to confirm Portnet°Øs involvement in developing the common infrastructure for the Coega Port°Ø (CDC press release, 13 April 2000).

11 August 2000 °© Leslie Boyd, the chairperson of Highveld Steel and Vanadium, which jointly owns Columbus Stainless Steel based in Middleburg along with Billiton and the Industrial Developments Corporation (IDC), announces that Ferrostaal and Highveld are holding talks about establishing Ferrostaal°Øs investing in a cold rolling mill in Middleburg instead of a stainless steel mill at Coega. Herefers to the punitive railage costs that would be incurred by locating at Coega (Financial Mail, 11 August 2000).

16 October 2000 °© CDC announces that it has signed an agreement with Anglo-Dutch consortium P&O Nedlloyd and TCI Infrastructure for the development of a container terminal and logistics park within the Coega IDZ (CDC Press Release 16 October 2000).

1 December 2000 °© Alec Erwin, the Minister of Trade and Industry, gazettes the Industrial Development Zone Programme regulations. These are promulgated into law as part of the Manufacturing Development Act, 1993. Amongst other things these regulations state that in order for a commercial company such as CDC to act as an IDZ operator firstly, the Coega location would have to be designated by government as an IDZ and secondly, the CDC would have to be awarded an operator°Øs permit in order to legally conduct itself as an IDZ operator. According to the regulations prospective IDZ operators must submit their applications for operator°Øs permits to the Manufacturing Development Board for its decision (IDZ Programme Regulations, Regulation Gazette No 6936).

22 February 2001 - Siyabonga Gama announces that the Coega port will be built in five phases. He confirms that the costs will be incurred by Portnet. 'The initial phase will cost the utility R1.65bn and Portnet has budgeted an additional R3bn depending on tenant demand' ('Portnet to invest R4.65bn in Coega' Business Day, 22 February 2001).

22 February 2001 °© Work starts on the Coega site. A CDC press release announces that °Æthe work is being undertaken in preparation for the main construction work on the Coega Industrial Development Zone and deepwater port°Ø. The chief executive officer of CDC, Pepi Silinga, says that °Æthe start of site preparation work marks an important milestone in the development of the Coega Industrial Development Zone as a world-class facility°Ø. (CDC, Press Release, 22 February 2001).

March 2001 °© CDC publishes its Annual Report for the year ended 30 June 2001. The document indicates that the Board of Directors of CDC is made up as follows: Moss Ngoasheng (Chairperson); Bahle Sibisi (Deputy Director General, DTI); Paul Jourdan (ex-Deputy Director General, DTI); Jan de Bruyn (Chair, Manufacturing Development Board); Mcebisi Jonas (Executive Director, Eastern Cape Development Corporation); Pepi Silinga (CEO). Mr Jonas is reported as joining the board after 30 June 2001. Moss Ngoasheng is listed as the chairperson of CDC°Øs Audit and Investment Committee. The Annual Report provides no indication of the process by which the board members were appointed or by whom they were appointed. The report confirms that CDC is a private company, rather than a public entity. It°Øs company registration number is 1982/003891/07 (CDC Annual Report 2000, no date of publication).

4 June 2001 °© Pepi Silinga, the chief executive officer of CDC acknowledges that the CDC has not yet signed any tenants. He says in response to criticism that government is about to spend R2.2bn for the development of a port and IDZ infrastructure without havingfirst secured signed tenants that the original strategy of holding off until enough signed tenants had been secured patently had not worked. He is quoted as saying that the state has a role to play in providing enabling environment for development which included the provision of infrastructure where the private sector would not assume the risks of doing so (I-Net Bridge, 4 June 2001).

7 June 2001 °© CDC announces that the °ÆCoega community relocation°Ø is underway. It says °Æthe regulations governing IDZs in South Africa stipulate that an IDZ may not include a residential area°Ø. It says °Æthe CDC will also pay for the actual relocation of families from Coega to Wells Estate. The CDC has also agreed to provide °© training for a maximum of one year to at least one individual per family; - one job per family°Ø (CDC press release, 7 June 2001).

11 June 2001 - Alec Erwin, the Minister of Trade and Industry, acknowledges in a letter to the South African Environmental Project that °Æthe Coega Development Corporation (CDC) has applied but not been granted an operator°Øs license°Ø. Erwin goes on to say °Ænor has the Coega area been designated an IDZ°Ø.

17 July 2001 °© An economic feasibility study for the viability of the Coega port is published as part of the port°Øs Environmental Impact Report (EIR). The study is heralded by the Eastern Cape press as demonstrating the feasibility of the construction of the Coega harbour as a container terminal. (The actual work on the construction of the harbour had already started 5 months prior to the publication of the EIR). The EIR states that °ÆOne of the key findings of the cost benefit analysis is that the proposed port, if limited to a container terminal, is economically weakly sustainable without the IDZ°Ø. It points out °ÆIf the IDZ is a success, the port will be an economically sustainable project. However, the overall decision to go ahead with the port is inextricably linked to the viability of the IDZ°¶°Ø. It goes on to say that °ÆThe question of whether the port is an efficient use of taxpayer°Øs money is fundamentally linked with the Coega Project as a whole. In order to answer this question, one needs to examine the viability and rationale behind the entire Coega Project°¶°Ø (Coega Harbour EIR, p.xiv-xv).
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