

31 JANUARY 2014

PHASE 1

CHAIRPERSON: Thank you. Mr Zimela, I've noticed from the transcript that the other day when you testified you said, or the transcript said that the BAE commitment was R7.2bn. Is that a typographical error or not because it appears that according to Annexure "F" it should be US\$7.2bn. Can you just clarify that for us?

MR ZIMELA: You are correct Mr Chairperson, it's US\$7.2bn, I think I made a mistake when I said R7.2bn.

CHAIRPERSON: Thank you. I think for the purposes of the record also page 4168 I assume that you were referring to R7.2bn broken down into R5bn for sales and R2 million for investments it should be Dollars and not Rand?

MR ZIMELA: Correct, Mr Chair.

CHAIRPERSON: Thank you. Then the last question Mr Zimela is I think at the end of your evidence ... Sorry. Let's go back to Annexure "F". At the end of your evidence when you were testifying you mentioned that the commitments of Agusta are in Euros but the commitments of other obligors were in Dollars. Now if that is the position the total amounts that are contained on Annexure "F" which deals with the total actual investments, do they also count, those figures, do they also count the investments made by Agusta which was in Euros or not?

MR ZIMELA: Can you repeat the question Mr Chairperson?

31 JANUARY 2014

PHASE 1

CHAIRPERSON: When you testified you said the investments made by Agusta, they were in Euros, is that correct?

5 MR ZIMELA: I must have made a mistake, it's the commitment of the German Submarine Consortium is in Euros, not Agusta, all the others were in Dollars.

CHAIRPERSON: All the others were in Dollars but then the German ones were in Euros?

MR ZIMELA: That's correct Mr Chairperson.

10 CHAIRPERSON: But then the same question still arise, if at all the German ones were in Euros are they accounted for in the total figure that we have of investments which is reflected on Annexure "F"?

15 MR ZIMELA: The last page of Annexure "F" on the last two columns, the grand totals, the last but one row, the last two rows sorry, the last two rows, the last but one row represents the ... On the investments and all the other columns it represents the totals for all the other, in fact with the investments and actual obligor investments and credits it
20 represents the total of all the other obligors except GSC. Then the last column represents the totals for GSC. We did this purely because on the contracts for GSC are in Euros and the commitments are in Euros and all our documents have been
25 conducted in Euros, so to change it in Dollars to get the actual total in Dollars would have gone back to each and every claim

31 JANUARY 2014

PHASE 1

and look at what was the exchange rate at that time, so for simplification purposes we kept the GSC as Euros and the others we totalled in Dollars. So, the last row represents only GSC, the last but one row represents all the others except
5 GSC.

CHAIRPERSON: Yes, I think ... (Indistinct) look at Annexure "F" that's how I understood it. Then during your evidence Advocate Sibiya spoke about the (indistinct) and about Annexure "F", and then you end up saying that the last
10 point must be deleted because it seems to be an error, that's what confused me when I read the record because I thought the last (indistinct) as one of the obligor investments were not, were in Euros and not Dollars, the last item will represent those investments, but then after Advocate Sibiya raised that
15 question you end up saying that (indistinct) and the last items should be deleted, that is why I needed some clarification. So, this is total actual investments that you have on the last page which was in Dollars, I think it's US\$978 million, does not include an investment of GSC?

20 MR ZIMELA: Correct Mr Chairperson.

CHAIRPERSON: So, in other words for us to get a total investment, actual investments we must add a €149 million to the US\$978 million?

MR ZIMELA: That's correct Mr Chairperson.

25 CHAIRPERSON: Thank you.

31 JANUARY 2014

PHASE 1

NOTE: Caucus.

CHAIRPERSON: Any questions from any of the parties arising from what I was asking the witness? No new issues.

5 ADV SKINNER: Mr Chairman, in the absence of Advocate Aboobaker who was dealing with the witness may I be permitted to raise two points as to whether I would be allowed to ask the witness questions on that?

CHAIRPERSON: Do they relate to what I've raised with the witness or not?

10 ADV SKINNER: Mr Chairman, the first point is just a very minor correction of Annexure "F", the other point raises indirectly to what the Chair was talking about, about converting Dollars into Euro but it doesn't relate directly to the question the Chair put, it relates to one of the other obligors as to what
15 the investment was, in which currency and how it's reflected on Annexure "F".

CHAIRPERSON: Okay. Any objections from DTI?

ADV CHOWE: Mr Chairperson, we have no objection.

CHAIRPERSON: Thank you.

20 ADV SKINNER: Thank you Mr Chair, I'm indebted. Mr Zimela the first point is on the last page of Annexure "F", it's page 113, and you will see near the top of the page there are two projects referred to as IDC Credit Facility Tranche 1 and IDC Credit Facility Tranche 2, do you see those?

25 MR ZIMELA: Yes.

31 JANUARY 2014

PHASE 1

ADV SKINNER: Now in the course of preparation for Mr Zikode what struck me was that the credits for those two projects seemed to have become reversed in the sense that the credits that are reflected as being awarded for tranche 1 should be for tranche 2 and *vice versa*, are you able to comment on that?

MR ZIMELA: I'm actually not sure what you are referring to, which document are you referring to when you say it's reversed?

10 ADV SKINNER: Alright, let me explain. If you see the line which says IDC Credit Facility Tranche 1, do you have that?

MR ZIMELA: Yes.

ADV SKINNER: You will see under the column which says "Actual Obligor Investments" there is a figure of US\$973 120 000, do you see that?

MR ZIMELA: Yes.

ADV SKINNER: From the documents tranche 1 would seem to have been around about 2004/2005 and tranche 2 in about 2008, would that be right?

20 MR ZIMELA: I cannot recall it, when were the ..., what year were the actual projects implemented.

ADV SKINNER: You see, in the course of preparation I saw a document reflecting the deposit of that figure of US\$943 120 000 in about July 2008 which then seemed to me that it should relate to tranche 2 rather than tranche 1.

31 JANUARY 2014

PHASE 1

MR ZIMELA: I would have to go back to the documents. According to my knowledge we may have made a mistake, but I would have to go back to the documents to actually check whether we reversed tranche 1 or tranche 2.

5 ADV SKINNER: Thank you Mr Chairman, that's the one point. If I can ask the witness simply to confirm to the Commission at some stage whether he has checked and whether the credits have become reversed. Mr Zimela, the other point is on the second page of Annexure "F" which is the
10 page marked 111. Those figures that appear under the German Frigate Consortium, GFC, are all in Dollars, is that correct?

MR ZIMELA: Correct Sir.

ADV SKINNER: Going through the various minutes and the awards and correspondence relating to awards it struck me that
15 the awards to the GFC at the time that they were made were all in Euro, is that right?

MR ZIMELA: The awards to GFC were in Euros but for GSC were in Dollars. When we processed the change because the contracts are in Dollars we would have used Dollars, not
20 ..., in order to monitor the performance we would have used Dollars. If there is anywhere we used the Euros I would think that I ..., I don't seem to recall whether we used Euros. If there is any way that you have used Euros I would have thought that it was a mistake.

25 ADV SKINNER: Alright, I'll ask Mr Zikode about that when

31 JANUARY 2014

PHASE 1

we get to his evidence but all I'm checking is as far as you're aware the figures that are reflected at page 111, that's the second page of Annexure "F" under the heading "GFC", the Corvette platform where the figures are all in Dollars, those
5 are the credits that were awarded in Dollars and the investments that were made in Dollars?

MR ZIMELA: Correct.

ADV SKINNER: Thank you Mr Chair, I'm indebted to the Commission.

10 CHAIRPERSON: Do you want to ask him a question?

ADV CHOWE: Thank you Mr Chairperson, we do not have questions, other than maybe to confirm one issue which the chairperson has already clarified. When one has a look at page 112 of Annexure "F" at the bottom of that page on the
15 GSC I just want to draw the Commission's attention to the fact that the totals under GSC met exactly with the totals on the last page as the chairperson has actually indicated. It's ...

CHAIRPERSON: Can you just hold on, I'm checking, I don't remember that, what the advocate said suggested that we
20 should delete that line and that's what I did, but when I looked at it again (indistinct) something wrong which I didn't quite understand, that is what (indistinct). Mr Zimela, thanks a lot.

MR ZIMELA: Thank you Mr Chair.

ADV SKINNER: Mr Chair, we would then continue with the
25 witness who was giving evidence before the adjournment, that's

31 JANUARY 2014

PHASE 1

Mr Sipho Zikode.

CHAIRPERSON: Can he take the oath?

(Witness is sworn in.)

CHAIRPERSON: Thank you. Advocate Skinner before we
5 start I just want the witness to explain to me one or two issues
which were probably (indistinct) to understand his evidence
properly. (Indistinct) on the last time when we, when the
witness testified he said something, the record says Mr Zimela
says (indistinct). Mr Zimela explained the grand total for those
10 obligors that were (indistinct) below that for GSC which was in
Euros but if you look at the totals only taking the one for
Dollars, that (indistinct) of Dollars, if you take the total
investment credit the total investment credit will be US\$2.7
million and then you divide that US\$2.7 million with the total
15 actual investments which is US\$978 million you get a multiplier
of 2.7%, 2.8%, which is what the witness said.

Now my question is did you take into account the
investments of GSC which were in Euros? Would this change a
multiplier effect that you calculated last time and if so, what
20 should be the amount (indistinct)?

MR ZIKODE: Yes Sir it will change the factor, I was just
using that row of Dollars for illustrative purposes but if we
were to convert the Euros into Dollars and then do the same
exercise I'm sure the factor would move from 2.8% to about 3%
25 or 3.-something, I haven't done the ..., I was just using that as

31 JANUARY 2014

PHASE 1

an example.

CHAIRPERSON: Maybe not quite estimate, let me try and make myself much clearer. The total investments that he used were the Dollar denominations. Now if you add the Dollar
5 denominations to the Euros and actual total investments that were made by GSC, and then you divide it by the total investments and the total investment credits, what would be the result? I tried to do the calculations yesterday, it's unfortunately I'm not gifted at figures and I had a bit of
10 problems, I wonder if you can do that exercise for us? And I'll tell you to me it seems to be very important to understand that because as I understood your evidence the important thing when one looks at the failure or the success of projects of this nature you look at the aggregate figures in order to determine
15 whether the performance (indistinct) or not, whether one project was 1 million, the other one R2, that is not important, the important thing is the aggregate figure at the end of the day. Now I think it is important for us to understand what would be the total effect of the total investments if you divide them
20 by the total credits (indistinct). I think on those figures one may have presented (indistinct) and tell me whether the credits (indistinct) failure or not. If you (indistinct) can you add those Dollars and the Euros and divide it by the actual credits granted for the type of investments and let's see what figure do
25 we get. If you cannot do it now probably (indistinct) tea break

31 JANUARY 2014

PHASE 1

and let us have those figures.

MR ZIKODE: Well, I think it can be done Mr Chairperson but it's going to be a very tedious process like Masizakhe was explaining because you know these were credits that were
5 collected over a number of years and each and every period got its own exchange rate between the Dollar and the Euro. So, we can try our best maybe to come with an average converging rate for illustrative purposes and then add the numbers as Dollars and then we get the total picture but it won't be a
10 perfect picture but we can try.

CHAIRPERSON: If you can try. I understand that it would not be perfect but it will give us some sense of whether there were fairness in those whole exercise or not. I know that at different times the exchange rate and (indistinct) but then we
15 just want to get a sense, not to get the correct figure, I think it will be almost difficult to try and give us the exact figure, but then just a figure like you did on the Dollars and (indistinct) do we use only those projects where the denominations or the Dollars at the end of the day if you divide it or multiply it by
20 the total investment credits and end up with something like 2.7%, 2.6%. I just want you to do that so that one can have a feel of whether you know, (indistinct). Try that and then can you let me have it by Monday or so? Thank you.

ADV SKINNER: Thank you Mr Chair. Mr Zikode, following
25 from the question put to you by the chairperson if one looks at

31 JANUARY 2014

PHASE 1

the very last line on page 113, it's the last page of Annexure "F" the row of figures which relates to Euros, do you have that?

MR ZIKODE: Mm-mm.

5 ADV SKINNER: 113 Mr Chair, the very last page of Annexure "F". Taking only that line which reflects the figures in Euro which we know from Mr Zimela's evidence is the credits and investments of the German Submarine Consortium. I did a quick exercise in my head, if I take the total investments of €149 405 863 and divide that into the investment credits of
10 €961383 389 I get a figure of approximately 7.

MR ZIKODE: Well yes, I haven't done that. That's why we have committed to doing the exercise but yes, if you take individual obligors some will have a bigger multiplier factors, some will have a very small, but that we'll show on Monday.

15 ADV SKINNER: If I could ask you when you are doing the exercise that the chairperson's asked you to carry out, if you could also then just compare the overall figures for multipliers for the obligors all along the lines I was suggesting to you now for the German Submarine Consortium.

20 MR ZIKODE: That's fine.

ADV SKINNER: I just want to clarify two general aspects relating to your evidence, we know there were projects where multipliers were granted, is it correct that multipliers were only granted in respect of projects where the obligor was the sole
25 investor?

31 JANUARY 2014

PHASE 1

CHAIRPERSON: Advocate Skinner, I think if you look at the evidence of other witnesses (indistinct) what he said. Multipliers were granted for various reasons, one of them being where they were trying to get investments in a particular area and some of the projects came from DTI, some of the projects were proposed by the obligors, so that proposition that you put to the witness in all fairness to the witness is incorrect.

ADV SKINNER: Mr Chair, I'm not suggesting that that was the reason but I'm simply saying if one looks at the projects where multipliers were granted were they only in projects where the obligor was the sole investor or were they in projects where the investors were more than the obligor.

CHAIRPERSON: Are you putting it to him in the form of a (indistinct) proposition?

ADV SKINNER: Yes Mr Chair.

CHAIRPERSON: Thank you.

MR ZIKODE: If I recall very well in cases where, there would be cases where the investor is only the obligor, then they will give a multiplier, but normally because of the causality principle where there are many investors into the project including that, including the obligor, we don't give a multiplier there because there is a multiplier effect if you look at the contribution by other, the contribution by other investors, but the projects were not the same, there might have been one or two where even though there were other investors

31 JANUARY 2014

PHASE 1

the multiplier was still given but I can't remember those projects, if there is one I'll be very happy to try to recall and then give an answer.

ADV SKINNER: Thank you. The other aspect is that we've
5 dealt very briefly with what you've referred to in your last
answer as the multiplier effect where an obligor gets credit for
the total investment rather than just for the investment made by
that obligor. My question is was there a benchmark figure that
the DTI accepted in respect of deciding whether to grant credit
10 for the entire investment by all the obligors, in other words if
one takes a hypothetical example of a R100 million project,
was there a figure which the DTI had as a benchmark where it
could say if you contributed more than that figure we accept
that that was a causality satisfied, if you contributed less than
15 that we're not satisfied?

MR ZIKODE: Oh yes, before we come to the multiplier
figure there will be intense negotiations between the
programme manager representing the DTI and the IPCC and the
company. So most of that, during the implementation of that
20 programme we decided that we will use the 10% contribution as
the benchmark but then obviously depending on the project
because the principle of the offset is as long as you caused the
project, it doesn't matter whether it's 10% or 20%, or it could
be 0% in terms of contribution in monetary terms from you as
25 an obligor but as long as you prove that you have caused the

31 JANUARY 2014

PHASE 1

project and the DTI is satisfied that you have caused it, there is evidence, then you get the total credit, but as I've said with practice we ended up at times requesting about 10% as a benchmark but that was not cast in stone in the policy itself.

5 ADV SKINNER: Thank you Mr Zikode, now we adjourned at the stage where we had agreed to make available a document which was in the form of notes I had compiled and again just for the record that has been made available and I'm not suggesting that it has any evidentiary value, it was purely to
10 try and summarise the position and to put propositions to you so that it would be easier for you and for the Commissioners to follow what I am putting. You have a copy of that document?

MR ZIKODE: Well yes, I have, all along I had a copy but this morning as I arrived here I was told that there is a new
15 version of the copy that I had all along, so I had the new version now of your document.

CHAIRPERSON: Sorry, just hold on a second Mr Zikode, what do you mean that when you say that (indistinct) had a copy because I thought that the document was only prepared
20 and distributed yesterday, yesterday or the day before yesterday, what do you mean when you say (indistinct)?

MR ZIKODE: If you remember Chair last time we were here the evidence leader wanted to take me through his document, so I'm referring to that document, that document I
25 received I will say four, five days before I testified on Tuesday,

31 JANUARY 2014

PHASE 1

so that's the document I'm referring to when I say all along I had your document but this morning I was given a new version of the document I'd always had. But this new version, to be fair to the evidence leader, is not that different from the older version, but what I will, through you Chair request, is that whenever he asks me a question because I had prepared myself using the old version, he can refer it, he must refer to a paragraph and a project so that I follow him. I won't be necessary tracking him using his version, this new one now because I prepared myself using the old one, because I thought just one that today he will be leading me from.

NOTE: Caucus.

CHAIRPERSON: Advocate Skinner I'm sure you have heard what the witness is saying, he has two versions, he has prepared on the basis of the first version that you sent to him. If possible where the paragraphs are the same, try and refer to the old one that he says he has seen some few days ago and he prepared on the basis thereof.

ADV SKINNER: Yes. Mr Chairman, just to clarify, the witness is quite correct that the fuller document was sent to him some time ago. When the Commission adjourned on Tuesday there was an undertaking given that we would submit the document by Wednesday morning. The only amendment to the document is that in the form it was originally there were references that if the witness signed it as a statement where he

31 JANUARY 2014

PHASE 1

would say: "I now deal with this aspect" or: "I refer to the passage", those will then change simply to remove the personal reference and there were two small projects which we considered really were not worth troubling the Commission
5 about. Otherwise the document is identical, there have been no changes in it to the document the witness had.

I don't have the original document because we understood this had been sent electronically to the Department of Trade and Industry in the course of Wednesday morning but I
10 didn't see a difficulty in the form that I have referring the witness to the individual projects because the subparagraphs under that have not been changed in any way, but I can't say to the witness it's paragraph 24 because it may have changed with the numbering, but I will take him through the paragraphs under
15 each heading of the project.

CHAIRPERSON: Okay. Do you want to say something Mr Zikode?

MR ZIKODE: Yes, I wanted to say I'm happy with what he is proposing.

20 CHAIRPERSON: Thank you, then let's proceed.

ADV CHOWE: Mr Chairperson maybe before we proceed, I'm sorry.

CHAIRPERSON: I'm sorry.

ADV CHOWE: Okay. Thank you so much Mr Chairperson.
25 Just to indicate indeed it's true what Mr Zikode is saying and

31 JANUARY 2014

PHASE 1

I've also listened to Mr Skinner in as far as the documents are concerned and just for the risk of not repeating exactly what the court said on Tuesday Mr Chairperson that, and this was also reiterated by Mr Skinner this morning that no evidential value would be placed on the notes or the draft document which Mr Skinner before the Commission, and I would also like to reiterate that because of the fact that in those notes one will also have regard to the issues of opinions or maybe certain statements made by the evidence leader, that maybe anyone who is in possession of that document must not take it that maybe it's what the DTI or Mr Zikode agreed to or that is his position, that his position should also only be as he testified and I'm not trying to reiterate what you said Mr Chairperson and what Mr Skinner have said but just to be cautious in as far as any person who might one way or another got hold of the particular document. Thank you Mr Chairperson.

CHAIRPERSON: Thank you.

ADV SKINNER: Thank you Mr Chairman, I have no difficulty with that, that is what we were saying. Mr Zikode, can I refer you to the start of the document we have, for your reference there is a heading which says "BAE Systems/SAAB". In that first paragraph I was summarising the NIP commitments of that particular obligor and the figures for the respective investments, save Mr Chairman there is a typographical error in the second last line of that paragraph, there's a sentence

31 JANUARY 2014

PHASE 1

which says:

"In addition it received a total of US\$5644 ...".

That should be "5444", but with that change the figures that I have set out concur with what is set out in Annexure "F", so on that basis I assume you have no difficulty with paragraph 1 as reflecting the commitment and the figures that were achieved by way of credits and sales.

MR ZIKODE: I have no objection.

ADV SKINNER: It is then indicated in the following paragraph that BAE Systems was originally contracted for 24 projects of which four were implemented and a further 40 were implemented as substitutes for the original projects. Do you accept that?

MR ZIKODE: Yes, I do.

ADV SKINNER: I then want to move on to some of the individual projects and the first one I want to refer you to is the project which is described as Dunlop Tyres. Mr Chairman, if I can ask the Commissioners also to have regard to Annexure "F", because at Annexure "F" there are two projects which mention Dunlop, the particular project I'm referring to is on the first page of Annexure "F" page 110. In the middle of the page there is a project on the left hand side where the project name is reflected as Dunlop Tyres, so I'm not referring to the one which is the, on the very last line of page 110. Mr Zikode, this was at the stage where we adjourned, I was asking you on

31 JANUARY 2014

PHASE 1

Tuesday to confirm that this project was for the capital expansion to a total of a R192 million and by that I'm not talking about how much the obligor would contribute, but that the overall cost of the expansion of two factories in Ladysmith and Durban was to a value of a R192 million. Is that correct?

MR ZIKODE: Yes, correct.

ADV SKINNER: And then I recall that I had asked you, and you dealt with that but for the sake of clarity let's just mention that briefly, that the relative size of the company which is involved in a project was not of importance to the DTI, in other words the company involved in the project could be a very small company or it could be a large multinational, would that be right?

MR ZIKODE: That's correct.

ADV SKINNER: Now this particular project was for both the upgrading and expansion of these two factories, from DTI's point of view was there any distinction drawn as to the effect of upgrading as opposed to the effect of expansion?

MR ZIKODE: Well, there is always a distinction. Upgrading it means you are making your manufacturing processes more efficient so that you produce more products. At times there is (indistinct) for producing the value-added goods, so you move from low value-added goods to high value-added goods, you do that by upgrading your manufacturing processes, bringing in new technology, bringing in new ways of

31 JANUARY 2014

PHASE 1

manufacturing whereas an expansion could be an expansion of the old technology, it just means that you have to, you are increasing the capacity of the factory, instead of one line you have two or three lines, so that's normally the difference
5 between upgrading and expansion.

ADV SKINNER: Why I ask is that clearly this was a project related to two existing factories, so it wasn't new business but it would fall under additionality with the idea that there had to be a satisfaction that it was incremental business.

10 MR ZIKODE: Yes, both upgrading and expansion brings about incremental business.

ADV SKINNER: In relation to this particular project my understanding from the document is that it was agreed between the DTI and Dunlop and the obligor that a baseline of the 2001
15 export and local sales would be used for assessing all future export and local sales, is that correct?

MR ZIKODE: That is correct. Why, because of the problem you would encounter when you expand the business, because there's old operation and now you have a new
20 operation that is brought about by the offsets, the issue is we have to consider what was happening before the expansion and then find a baseline so that you are able to credit the work that has been done by an offset company in expanding the business. It becomes easier if the products are different, then you just
25 focus on the new product, but if you product almost the same

31 JANUARY 2014

PHASE 1

product then it becomes a challenge, that's why then you have to find a baseline and then use the additional products for crediting, for giving credits to the offset company.

ADV SKINNER: Mr Zikode, I'd like you then to refer to two
5 bundles, the first is what has been referred to simply as the annexures to your evidence, it's in a fairly thick lever arch file, and the second is a new bundle which I understood had been given to the DTI, which we've simply called "Supplementary".
Mr Chairman, that is a bundle which I understood had been
10 given to the Commissioners, it's indexed and paginated off some 79 pages.

MR ZIKODE: Sorry, you said the first one is recorded as "Annexures" and the second one is? What do you call that one? No, I don't have the supplementary bundle.

15 ADV CHOWE: Mr Chairperson, maybe we can just ask, I don't want to go further than that, just to say maybe is it not maybe convenient to just take a break so that we can try to see this particular document and maybe make a copy or make it available to Mr Zikode just for that reason?

20 CHAIRPERSON: Okay Mr Zikode we will take a break and you will inform us as soon as you are ready.

ADV CHOWE: Thank you Mr Chairperson.

CHAIRPERSON: Thank you.

ADV SKINNER: Could I suggest, I see we are almost at
25 11h00, if, would this constitute the short adjournment and we

31 JANUARY 2014

PHASE 1

then go through until the long adjournment?

CHAIRPERSON: It will be the tea break. Thank you.

(Commission adjourns.)

(Commission reopens.)

5 CHAIRPERSON: Can the witness confirm that he is still
under oath?

MR ZIKODE: I do.

ADV SKINNER: Thank you Mr Chairperson. I'm going to
refer the witness to two documents at the moment, the first is
10 in the annexures file, it appears immediately after the
numbered page 10, it just has an "A" on it, it should have said
"10A". It's the page, my copy merely says "A" but it appears
immediately after page 10 and before page 11. It's a letter
from SANAP dated 12 February 2004. Mr Chairman while we're
15 dealing with that I will then also at the same time be referring
the witness to the first page of the supplementary bundle. Mr
Zikode, we had dealt before the adjournment that in this
particular project of Dunlop Tyres it was agreed that a baseline
of the 2001 export and local sales would be used in order to
20 assess the export and local credit to be granted. I am now
referring you to the document in the Annexure File which
appears at 10A, it's a letter from SANAP dated
12 February 2004. Do you have that?

MR ZIKODE: Yes, I do.

25 ADV SKINNER: Can you explain to us what is SANAP?

31 JANUARY 2014

PHASE 1

MR ZIKODE: SANAP is a company that was registered by BAE Systems and SAAB, it was registered here in South Africa to manage their offset obligations. I don't know the ratio of shareholding to SANAP by the two companies but I
5 know as a partnership between BAE and SAAB they then registered this company here in South Africa to manage their offset obligations.

ADV SKINNER: So, as you say effectively we can just accept that where a document is from SANAP or addressed to
10 SANAP they were acting as the managers for BAE and SAAB?

MR ZIKODE: Correct.

ADV SKINNER: This document at page 10A of the Annexure file indicates as I put to you earlier in the second line of the first paragraph that:

15 *"The monthly baseline figures would be the figures supplied by Dunlop Tyres and will add up to the total as provided in the management accounts and the relevant parties for the annual, local and export sales figures for 2001".*

20 So that's where the baseline was agreed upon. Is that right?

MR ZIKODE: Correct.

ADV SKINNER: The second paragraph of this letter, the first sentence says:

25 *"I have Dunlop Tyres monthly breakdown figures for 2001 sales and attach a copy".*

31 JANUARY 2014

PHASE 1

Now that is the document that should have followed after page 10A but is in fact the first page of the Supplementary Bundle, do you have that?

MR ZIKODE: Yes, I do.

5 ADV SKINNER: The first page of the Supplementary Bundle then reflects the turnover for 1999, 2000 and 2001 and gives the totals for each of those years. Do you see that?

MR ZIKODE: Yes, I do.

10 ADV SKINNER: Taking those totals on my rough calculations from 1999 to 2000 there was an increase of approximately R61.19 million, do you accept that figure?

MR ZIKODE: Sorry, how do you come to that figure, where is it?

15 ADV SKINNER: It's simply subtracting the figures for 1999 from the figures for 2000.

MR ZIKODE: Well I haven't done that, so I will just assume your calculation was right.

20 ADV SKINNER: And then on the same basis if my calculation is right subtracting the figures for 2000 from 2001 I got to an increase in sales of some R57.79 million.

MR ZIKODE: Okay, let's assume you are right.

25 ADV SKINNER: The point I want to put to you is that it would appear from this that there were fairly considerable increases in sales even prior to the expansion and upgrading taking place. Do you accept that?

31 JANUARY 2014

PHASE 1

MR ZIKODE: Yes, if your figures are right.

ADV SKINNER: Well, even ignoring whether my calculation's right, just looking at the bottom line at the totals one can see an increase from 1999 to 2000 and from 2000 to
5 2001, not so?

MR ZIKODE: Correct.

ADV SKINNER: And these are fairly considerable increases and we know that that was before the upgrading and expansion took place. What was the approach of the DTI with
10 regard to using the 2001 baseline figures because it seems then that they would not take into account any normal increase in sales and turnover after 2001. In other words let me make my question clearer. What I'm saying to you is that if one in terms of the arrangement was working on a 2001 baseline
15 figure the effect is that the DTI then assumed that all increases subsequent to 2001 were as a result of the expansion and upgrading and I'm asking whether DTI took into account the fact that the history shows that irrespective there were fairly considerable increases in sales and turnover.

MR ZIKODE: Yes you see, if you look at this turnover, that spreadsheet, turnover for the years the imports contributed a very high rate of growth of this growth you are talking about and I'm sure the imports were never accredited in the form of offset credits. So yes, you have to look at this you know
25 carefully, at these numbers, the aggregate numbers because

31 JANUARY 2014

PHASE 1

they also talk about imports. I don't know what's an OEE, but I would guess the replacement, those are replacement tyres which I think we did consider when we were considering the credits. So yes, what we are saying about the aggregates yes, there are increases, but look at the imports, they move from R15 000 to R23 000, to R40 000 and the imports were never considered for offset credits.

So, these aggregates you are talking about, they have a huge factor of, or huge increases as a result of the imports, so the picture might not be correct as you just put it. But in any way the other thing you also have to look at the business plan because with such kind of business, they produce new kind of tyres, they bring in new technology to upgrade the products and so that they can compete with the other products from the rest of the world, so we have to look at the business plan itself, these numbers, they cannot tell you anything really, the business plan will tell you exactly what kind of products, why we had to agree to giving the offset obligated company credits for investing in an already-existing business, growing like you are putting it, but you see, you consider the whole business plan, a row of three, three rows of numbers cannot give you the picture, you have to look at the business plan itself. Unfortunately I don't have it in front of me here.

ADV SKINNER: All I'm suggesting Mr Zikode is that the

31 JANUARY 2014

PHASE 1

arrangement was that everyone would work off, and that's reflected in the first line of document at 10A, the monthly baseline figure for 2001 and that credits were awarded based on increases in sales from that baseline figure of 2001, is that

5 correct?

MR ZIKODE: Sure.

ADV SKINNER: And I'm simply saying to you that the past history shows that even without any upgrading and expansion there would have been fairly substantial increases in sales and

10 turnover, whether that was taken into account by DTI or not.

MR ZIKODE: I'm sure that was taken into account by the DTI, but as I've said your numbers there, they include imports which really didn't give you the correct picture because imports, they are not accepted for NIP credit purposes.

15 ADV SKINNER: You say you're sure it was taken into account, what makes you say that you're sure that the ordinary increase from year to year was taken into account in determining sales credits?

MR ZIKODE: Normally you will take such issues like the

20 inflation effect in terms of the increases of numbers from year to year, we'll take cognisance of the company making huge marketing efforts, so all those we will consider in determining, in trying to get to a figure and as a baseline.

ADV SKINNER: You will recall that some months ago

25 towards the end of last year there were certain written queries

31 JANUARY 2014

PHASE 1

that were directed to the Department arising out of the offsets, do you recall those?

MR ZIKODE: Can you be specific, I don't understand what you are talking about.

5 ADV SKINNER: What I'm saying to you it's not a document that's before the Commission but do you accept that towards the end of last year two sets of written queries were submitted to the Department in respect of the projects and then answers were supplied by the Department, do you recall that?

10 MR ZIKODE: Well I don't know, maybe the Secretariat can clarify, I've never seen such documents.

ADV CHOWE: Mr Chairperson can I just ask, I'm not sure ...

15 CHAIRPERSON: Mr Chowe I'm not quite certain whether the question was directed to you or not, unless if you want to add to what the witness has said, the witness (indistinct).

ADV CHOWE: Yes, I wouldn't like to add Mr Chairperson but I was just maybe saying that the questions themselves, Mr Skinner has already said that they are not before the
20 Commission, so I'm not sure whether is he going to bring them to the Commission so that maybe the Commission could follow the question and answer which followed.

CHAIRPERSON: Yes, let's see what he does. We have a copy of the (indistinct).

25 ADV CHOWE: Thank you Mr Chairperson.

31 JANUARY 2014

PHASE 1

CHAIRPERSON: Thank you.

ADV SKINNER: Mr Chair, at this stage I'm not going to put, it's a fairly lengthy document running to quite a few pages, about close to 40 in all. I'm simply at this stage wanting to put
5 one aspect of it to the witness and see whether he can comment on that as how it accords with his memory or not, if he can't well and good, I'll move on, so I'm not proposing to necessarily put that document before the witness. Mr Zikode, one of the questions that was asked there related to this very
10 aspect I've been asking you about and the question was, was regard had to other possible reasons for an increase from the 2001 baseline such as annual price increases, marketing and advertising campaigns? The query then referred to this very document that I've asked you to look at and should this not
15 have been taken into account. The answer given by the DTI was:

*"It is correct that besides the expansion and upgrading other factors like price increases, advertising et cetera have a bearing on the sales
20 increase, however, besides inflation increases it would be difficult to quantify the contribution of these other factors. We thus use an average over a two year as a baseline figure to nullify these effects. We are also cognisant of the fact that
25 without the upgrading sales would have gone down*

31 JANUARY 2014

PHASE 1

over the long run”.

That was the answer. Now as I understand it you say you weren't involved in the supply of that answer.

MR ZIKODE: No, I wasn't involved in the supply of the
5 answer and it would be, maybe it would help the Commission
just to tell the Commission where exactly that document came
from, but commenting now on the answer that was given by the
Department I think it's not, it's not far away or it's far off from
what I understand. I think the answer they provided is almost
10 correct yes.

ADV SKINNER: So, can we accept then that the approach
with the Department was that there were other factors such as
price increases, increases in sales due to advertising and
marketing but because it was difficult to quantify the
15 contribution of those factors they could not be taken into
account?

MR ZIKODE: Yes, it's very difficult. I don't know
whether there is anyone who can, in this world who can exactly
say this is a contribution of the marketing alone, so that's why
20 they had to come to an agreement that you look at the increase
over a period and then come to an aggregate, an average
number that you use. I think the Secretariat provided the best
answer anyone can provide.

ADV SKINNER: If I can then ask you to go back to the
25 Annexures File, the larger file at page 11. This is the first

31 JANUARY 2014

PHASE 1

claim that was submitted in relation to this particular project and you will see on the right hand side about a third of the way down there's block, it says: "Reference" and the reference there is "C105-63-C1". As I understand it C1 indicates this is
5 Claim 1, would that be right?

MR ZIKODE: Correct.

ADV SKINNER: The document was based on a schedule of components that had been purchased by Dunlop and I haven't put that schedule up, it's a fairly lengthy schedule but as you
10 see from my notes it is a schedule of components purchased during the period 1 January 2002 to 30 June 2002. Do you accept that proposition?

MR ZIKODE: Sorry, I see the claim was for August 2001 to July 2002, so the date you are referring to, where do you get
15 that one from?

ADV SKINNER: I'm saying that accompanying this claim was a detailed document which consisted of a schedule of components which shows that they were purchased over a period up to the end of June 2002. That's why the claim was
20 2 July 2002.

MR ZIKODE: Okay.

CHAIRPERSON: Just hold on there. Advocate Skinner maybe for us to follow, where do you get that from because I'm trying to (indistinct) and I can't see (indistinct).

25 ADV SKINNER: Mr Chairperson, the date of the claim, if

31 JANUARY 2014

PHASE 1

one goes slightly below halfway on page 11 on the left hand side there is a block which says "Period Covered by this Claim" and what is filled in there is August 2001 to July 2002. And what I'm putting to the witness is as that as I understand it the claim was designed to cover components that were purchased during the period up to the end of June 2002.

MR ZIKODE: That's correct.

ADV SKINNER: This project involved two advances by BAE, one of R40 million and subsequently a further R25 million, is that correct?

MR ZIKODE: Correct.

ADV SKINNER: The earlier of those two payments was the R40 million which as I understand it was made on 26 July 2002. In other words it was made after the components which form Claim 1 had already been purchased. Have I understood it correctly?

MR ZIKODE: Correct.

ADV SKINNER: Apart from having to be satisfied that the investment by an obligor caused the project, presumably DTI also had to be satisfied in respect of each claim that the claim was valid and justified.

MR ZIKODE: Correct.

ADV SKINNER: If this claim was based on BAE paying R40 million which then caused the upgrading and expansion, how does that link with the fact that the components had already

31 JANUARY 2014

PHASE 1

been purchased prior to BAE making its first payment?

MR ZIKODE: First of all we said the obligors were not restricted to investing in small companies that do not have capital of their own. So, in this project the project was first
5 approved by the Committee. As a result of that approval then Dunlop was confident that the money would come, so they used their own resources because obviously you know to exploit the opportunities in the market they couldn't have waited for SANAP money or for BAE Systems money to flow in, which
10 could have been delayed by all the approval processes at the DTI, so from the point they heard about the initial approval they started investing with the hope that the money will flow from BAE Systems, because the project has been accepted as an offset project, but in any way it made sense commercially if
15 we look at the fact that there is no company or investment fund that will invest in a bankrupt company, they first assess you whether you have your own resources, whether you would be able to manage the financial contribution they are putting into a company.

20 Obviously Dunlop got its own money, nobody can dispute that but when they heard about the approval by DTI then they were confident that the money will come, they started investing their own, so under the causality principle these projects fits the offset programme or policy quite well, there's
25 no problem with that.

31 JANUARY 2014

PHASE 1

ADV SKINNER: Yes, I wasn't suggesting there was a problem, I've chosen this as an example of how the causality operated and in that respect if I can ask you to again just refer lastly on this project to Annexure "F" to Mr Zimela's statement
5 and maybe to keep that available because we will need to refer to it extensively.

MR ZIKODE: Yes.

ADV SKINNER: Referring then to the first page of Annexure "F", page 110, we started by saying the project, the
10 middle of the page where it says "Dunlop Tyres". Now as I understand what this document is showing is that BAE SAAB contributed an amount of US\$7.547 million. Is that right?

MR ZIKODE: Correct.

ADV SKINNER: The total investments which would
15 therefore include any figures that Dunlop or anybody else invested was some US\$29.9 million?

MR ZIKODE: Correct.

ADV SKINNER: And based on the principle of causality that you've referred to the investment credits that were
20 awarded reflected the total investment into the project.

MR ZIKODE: Correct.

ADV SKINNER: So, this is an example of causality and not an example of a multiplier.

MR ZIKODE: Correct.

25 ADV SKINNER: If one wants to refer to it it's really

31 JANUARY 2014

PHASE 1

multiplier effect, but not multiplier.

MR ZIKODE: Well, it's just the terminology, it might imply a fact, but what I'm saying this is an example of a causality where a company caused the rest of the investment.

5 ADV SKINNER: Alright. So, that was an example of how causality was applied. I want to move on now to another project which on Annexure "F" appears four projects above where Dunlop Tyres is, it's the project which is described as "Package Tourism McArthur Baths, P.E.", and still keeping
10 Annexure "F" available but can I ask you to look at the Annexures File at page 21.1.

MR ZIKODE: 21.1.

CHAIRPERSON: Sorry, you are saying 21.5?

ADV SKINNER: For the record, 21.1. It's the start of the
15 document.

MR ZIKODE: Chair, again with your permission can I take off my jacket? Thank you. This seat is very hot.

ADV SKINNER: At page 21.1 of the Annexures File is the start of the document headed "Export Clearance Application
20 Package Tourism" and it sets out on the first page that the project is aimed at package tourism as the name implies, is that right?

MR ZIKODE: Correct.

ADV SKINNER: If you turn over the page to page 21.2 the
25 first line on that page indicates that the first chosen hub for

31 JANUARY 2014

PHASE 1

this package tourism was Port Elizabeth.

MR ZIKODE: Correct.

ADV SKINNER: In the second paragraph of that page it indicates that there were three prerequisites to launch the project, that is that there had to be a swimming pool system which would have to be compensating for cold water temperatures, in other words it had to be heated, there would have to be a professional public relations campaign in Scandinavia and the runway in Port Elizabeth would have to be extended to accommodate the aircraft.

MR ZIKODE: Correct.

ADV SKINNER: At towards the foot of the page under the heading "Causality" it indicates that, in the third line:

"The objective was to identify a destination in South Africa most suitable for Scandinavian package tourism".

And that the choice had fallen on Port Elizabeth as the most suitable place.

MR ZIKODE: Correct.

ADV SKINNER: Over the page, page 21.3 towards the foot of the page it indicates under the heading "NIP Credits" that:

"The average tourist spends roughly US\$150 per day inclusive of hotel".

Do you see that?

MR ZIKODE: Correct.

31 JANUARY 2014

PHASE 1

ADV SKINNER: It would appear that that was queried and the response to the query is at page 21.5 of the Annexure File. It's a letter addressed to you dated 23 November 2001 and in the second paragraph it records by SANAP that:

5 *"The consultant appointed by SANAP to develop the project provided the information related to the estimated expenditure per tourist to be per day ...".*

It says "and day". And then in the paragraph after that it says:

10 *"In the experience of Mr Nielsen, the consultant, the breakdown he provided of expenditure per tourist per day is a generally accepted figure for what clients currently spend when they go on long haul holidays".*

Do you see that?

15 MR ZIKODE: Correct.

ADV SKINNER: This figure then of a US\$150 per tourist per day was accepted by the DTI as part of the calculation for all the claims under this project, is that right?

MR ZIKODE: Yes, that's right.

20 ADV SKINNER: Can I ask you to go back a few pages to page 18 of the Annexure File. This document in the first paragraph records that:

25 *"SANAP was submitting the investment business plan and implementation plan for the upgrade to the McArthur Baths in Port Elizabeth".*

31 JANUARY 2014

PHASE 1

And it notes an essential element of the Package Tourism Project which has already been approved. This was part and parcel, as we've seen it was one of the prerequisites, part and parcel of the whole Package Tourism Project.

5 MR ZIKODE: Correct.

ADV SKINNER: The following page, page 19, at the foot of the page indicates in the second paragraph under the heading "Employment":

10 *"Once fully operational the swimming complex will directly employ about 10 people".*

Do you see that?

MR ZIKODE: Yes, I can see.

15 ADV SKINNER: This was an existing swimming pool complex as I understand it not being built from scratch, it was simply being upgraded by being heated.

MR ZIKODE: Correct.

ADV SKINNER: So, obviously the swimming pool complex prior to the heating already had certain employees.

MR ZIKODE: I guess so.

20 ADV SKINNER: You see, the reason I ask is, ... I don't want to waste time by asking you to find Annexure "F" but I'll simply read to you that Annexure "F" reflects under "New Jobs Created" 20, under "New Indirect Jobs" 40, being a total new jobs of 60. Now I understood the evidence of Mr Zimela to be
25 that the figures in Annexure "F" for jobs were taken from the

31 JANUARY 2014

PHASE 1

business plans. Can you explain why the business plan talks about 10 people? We are given somewhat increased figures in Annexure "F".

5 CHAIRPERSON: Advocate Skinner, that was not my understanding of the evidence. My understanding on the evidence was that the figures (indistinct), they come from the business plans and even from engagement with the obligors, (indistinct) from engagements with the obligors, so I think you must put the right proposition to the witness. Thank you.

10 ADV SKINNER: I apologise Mr Chair, I wasn't attempting to mislead the witness, I simply overlooked that aspect. So, from what the Chair has pointed out we can then only assume that the figures reflected in Annexure "F" for this particular project were not taken from the business plan but from
15 somewhere else like engagement with the obligor.

MR ZIKODE: Yes, I think so. Whenever they claim credit they would then submit a lot of supporting documents, supporting information of what happened in the period they are claiming for, so yes, it could be the business plan where there
20 is no additional information given during the engagements or it could be directly from the engagements.

ADV SKINNER: It just is curious that the figures from the business plan seem to have doubled on the direct jobs but as you say you can't take that very much further yourself.

25 MR ZIKODE: Yes well, a business plan like you are

31 JANUARY 2014

PHASE 1

saying is always a business plan. What matters is the actual implementation of the project, what came out of the implementation. So, I think the figures that you are quoting, they came out as we were assessing the actual implementation, the upgrading of the swimming pool, what jobs were created during maybe the construction, whatever construction that was supposed to be there and the jobs that were created afterwards for operating the swimming pools.

But what is important is what happened during the implementation of the project. A business plan can project whatever number which in many cases changes as we implement the project.

ADV SKINNER: In my notes Mr Chairman I'm referring to page 6 paragraph 9, but Mr Zikode there should be a paragraph in the document you have which starts referring to the minutes of the IPCC meeting of 12 August 2002.

MR ZIKODE: Sorry, which one are you looking at? Your notes? Yes?

ADV SKINNER: Mr Chair and Commissioner Musi, I don't want to waste time by having to refer to the document but for the record the reference to that quotation of the minutes of the IPCC meeting of 12 August is at page 23 of the IPCC File. Sorry may I correct that, my junior points out that it's not the IPCC File, it's page 23 of the Annexures File. You will see at page 23 of the Annexures File at the top of the page the

31 JANUARY 2014

PHASE 1

heading is "Package Tourism Swimming Pool" and the first paragraph says:

"The investment for the swimming pool was presented to the Committee as a separate business proposal from the Package Tourism ..."

The business plan we've looked at says that it was an integral part of the Package Tourism. Can you just clarify as to whether this was separate from Package Tourism or part and parcel of it?

10 MR ZIKODE: The swimming pool was part and parcel of the whole Package Tourism Project. I think the minutes here, they were referring to the fact that there was a separate business concept or business plan for the swimming pool that was submitted to the DTI, but the swimming pool is part of the
15 bigger project, the Package Tourism.

ADV SKINNER: I will return to the first claim that was lodged for this project shortly but can I ask you to have a look, you have the file which is marked "IPCC Minutes"?

MR ZIKODE: Yes.

20 ADV SKINNER: And I'm refe...

MR ZIKODE: Yes, I do.

ADV SKINNER: I'm referring to page 82 of the IPCC File.

At that page the minutes record under first paragraph:

"The decision is approve the award of US\$6.293 million export credits on the basis of receiving a

25

31 JANUARY 2014

PHASE 1

letter confirming that these are all new tourists”.

So, that was the decision of the IPCC?

MR ZIKODE: Correct.

ADV SKINNER: That query was then raised in two
5 subsequent minutes and the references to that, you don't need
to look at them, but are in the IPCC file page 90 and page 102,
so all I'm saying to you is that was clearly a concern that went
over a fairly lengthy period that it had to be shown that these
were all new tourists.

10 MR ZIKODE: I think it shows how we closely monitored
whatever was happening in terms of a company submitting
document to us claiming credits, that if there was any missing
document that that will be a standing issue until we receive the
document and then we give a final approval of the claim. It
15 shows really the checks and balances that were there, that
although you can give it in-principle approval but you still have
to submit all the documents before you can get a final
approval.

ADV SKINNER: Was the proof supplied that these were all
20 new tourists as claimed in Claim number 2?

MR ZIKODE: There was no way that the IPCC was going
to give a final approval without the proof being submitted. So,
I'm confident to say that proof was submitted, although I can't
say where it is now, I don't have it here but I'm confident
25 there's just no way that the Committee will have given the final

31 JANUARY 2014

PHASE 1

approval without any supporting document requested being submitted by the obligor.

ADV SKINNER: Can I then take you back to the Annexures File page 25. My understanding is that the document at page 5 25 and the following page, page 26 were documents that were furnished in support of this claim.

MR ZIKODE: Yes, these would be part of hundreds of pages, supporting documents that will accompany the claim.

ADV SKINNER: I want to ask you to look at these two 10 documents fairly closely because other than the figures that are reflected on the two pages by way of the number of tourists concerned the documents are identical both as to date and as to the wording of each page.

MR ZIKODE: That is hundred percent right and the 15 reason for that I would guess would be the obligor knew exactly what kind of information we want to assess and approve a claim. So, in my understanding they could have given the companies a template and say what you need to do is just to fill in the numbers according to the bookings you have made. 20 So, whether the wording is exactly the same yes, I can see that's exactly the same and I think what I've just said now is what happened.

ADV SKINNER: What I want to put to you is that in your 25 answer you said you guess and you think this is what happened, so can I conclude that you're not sure how these two

31 JANUARY 2014

PHASE 1

letters which are from two different companies in two different groups of companies came to be written?

CHAIRPERSON: I'm sorry Advocate Skinner, with the greatest of respect I'm not quite sure what you are trying to (indistinct) there, I'm not sure if at all that type of cross-examining of evidence is going to be of any help to us. The fact that the documents are worded the same, where does it take us? The witness is not the author of this document. How is he going to know the reason why the wording is the same? What you are asking him now is to speculate, he's not the author of this document, he wasn't there when the documents were written. How is he going to know why the wording is the same except just to guess? And I'm not quite sure that that is going to be very helpful to us. Thank you.

ADV SKINNER: Mr Chairman, I'm not asking the witness to guess how the documents came to be written, I was merely pointing out to him that they are identical because the documents are problematic as I will elicit from the witness, and it relates to the basis on which the claim was accepted as to whether there was any concern about these documents or whether they were taken at face value.

CHAIRPERSON: I agree, but then he would not be in a position to tell us why they are identical, he is not the author of the document. Whatever reason he is going to give us it will be speculating and that is the point that I'm trying to make.

31 JANUARY 2014

PHASE 1

So, for you to keep on asking him why are they identical (indistinct) is not going to be of any assistance to us because he is going to guess, he was not there.

ADV SKINNER: Yes. Mr Chairman in fact I wasn't asking
5 him to give us an answer as to why they were written, the witness volunteered that as to why he assumed they were written. My question was purely does he accept that other than the figures these are identical because I now want him to look at the particular documents themselves.

10 CHAIRPERSON: Advocate Skinner, let's get to the next point. (Indistinct) the wording of the two documents. As I say that is (indistinct). Let's get to the next point.

ADV SKINNER: As the Chair pleases. Mr Zikode, the point is that when one looks at these letters the second paragraph
15 records that it is confirmation of the number of tourists that visited South Africa. In the paragraph after that it records that:

*"We can confirm the total number of tourists that were booked on chartered tours and the number of
20 days that these tourists spent in South Africa".*

And my concern is that the document is dated 17 December 2002 but reflects tourists who spent days in South Africa up to the end of May 2003. Do you see that?

MR ZIKODE: Yes.

25 ADV SKINNER: You accepted that these documents were

31 JANUARY 2014

PHASE 1

submitted as proof of the claim. Are you able to say whether these peculiarities of the documents were something that drew the attention of the DTI or the IPCC?

MR ZIKODE: Like I've said, these letters were just a
5 small fraction of what we'll request from companies to prove the arrival of tourists from Scandinavia. We used to work very closely with South African Tourism for them to confirm the numbers of arrivals from Scandinavia in the period referred to by the obligor. We used to work very closely with STATS SA to
10 prove and also working with STATS SA we also got the average number of days the tourists actually spent in South Africa, not that average of 17 that initially we used just to calculate the credits.

So, what I'm trying to say to you, these letters were
15 just a small fraction of what we will do to assess whether the information provided to us is true or not.

ADV SKINNER: In respect of this project there was the first claim which was for the upgrading of McArthur Baths and thereafter 26 claims were submitted in relation to what were
20 referred as "Export Sales Credit", is that right?

MR ZIKODE: Correct.

ADV SKINNER: The first claim for the upgrading clearly can't be a difficulty, it's been established how much was invested in upgrading and there was no multiplier, it was simply
25 a straight award for the amount that the upgrading cost, is that

31 JANUARY 2014

PHASE 1

correct?

MR ZIKODE: Yes, you are correct. There was no multiplier on the investment in the McArthur Baths.

5 ADV SKINNER: The other 26 claims didn't relate to the cost of the upgrade of the swimming pool but were for the so-called package tourism itself, is that right?

MR ZIKODE: That's right.

10 ADV SKINNER: As was discussed somewhat earlier the basis of this campaign was, of this project was a marketing campaign that was to be undertaken in Scandinavia to encourage package tourism from Scandinavia to Port Elizabeth, have I understood it correctly?

MR ZIKODE: Yes, that's correct.

15 ADV SKINNER: Why would the 26 claims that were lodged in respect of that be classified as "Export Sales Credits?"

20 MR ZIKODE: Well, they are classified as export sales credits because the South African tourism industry was getting foreign revenues from the coming of the Scandinavian people here. So, from the spend they would make here in South Africa we were getting foreign revenues, that is why this was classified as an export sales because from an export sales you get foreign revenue.

ADV SKINNER: But it of course is not an export sale is it?

25 MR ZIKODE: Well, it's not an export sale if you look at you produce a product and then you sell it overseas and then

31 JANUARY 2014

PHASE 1

you get a foreign revenue. In this way the Scandinavians were coming here and spending money here, so we were getting foreign revenue as a result, so that's why we classified that transaction as an export sale, not a local sale.

5 ADV SKINNER: You see, what I want to suggest is that this project didn't fall within the NIP criteria of investment and by that I'm not referring to the upgrading of the pool but the remaining Package Tourism, it's not an investment, it's not a local sale of a product and it's not an export sale. Do you
10 agree with that?

MR ZIKODE: I will completely disagree because from a local sale we don't get any foreign revenue, you get foreign revenue when you export something. Here we've got foreign revenue because the foreigners came into our country and
15 spent their Dollars or their Euros here, so that's why it falls under the export category of, out of those three categories.

ADV SKINNER: So your evidence is that it still fell within the criteria for the award of credits because you say this was an export sale and therefore credits could be awarded?

20 MR ZIKODE: Yes. Even if you will say that was a local sale it's still okay, it's still within the categories.

ADV SKINNER: Well Mr Zikode, what I'm suggesting to you is that in fact it's neither an export sale, nor an export sale, that this was not a project that fell under the criteria at all.

25 CHAIRPERSON: Advocate Skinner, let's get to the next

31 JANUARY 2014

PHASE 1

question. The witness has answered that question twice or thrice, let's get to the next question.

CHAIRPERSON: As the Chair pleases. Mr Zikode, as I understand it we've seen that the amount spent on the swimming pool was a prerequisite of this project. Was it
5 established at all as to first of all how many tourists visited Port Elizabeth?

MR ZIKODE: In the beginning it was easier when the project was very small to see exactly where the visitors were
10 going. By the way when the project was launched in PE Mr Chairman, I was invited by the offset company and the mayor of PE to come and see what was going to happen. As we landed at the airport there were huge banners all over: "Welkom" and these banners welcoming the tourists from Scandinavian
15 countries, all over PE it was a big thing. The young people that were employed as security to ensure that the tourists are safe, I mean I'm talking now about the job creation that was created by this project that we never talked about, we never accounted for. So I'll come to other things, I'm just saying that
20 yes, at the beginning when the project was still smaller the target was PE.

ADV SKINNER: I wasn't asking so much about whether the target was PE, we know that from the documents, but whether it could be established either by the obligor or the DTI as to how
25 many tourists were visiting Port Elizabeth.

31 JANUARY 2014

PHASE 1

MR ZIKODE: Like I'm saying at the beginning yes, we could, because the project was mainly targeting PE, but then with time this project exploded because as you can imagine when people go back home word of mouth talking about the beautiful things they saw in South Africa, then the project expanded, expanded so much so that the two operators started noticing something that the numbers from Scandinavia are increasing but people that are going to South Africa are no longer booking through them because really you couldn't force people that just because it's me who made a huge public relations efforts in Sweden, if you go to South Africa you must go there through my tour company. People started now coming to South Africa without booking through these two or three operators and people started not going to PE yes, arriving in OR Tambo, going to the Kruger National Park, everywhere in South Africa, why, because the project was expanding which was a benefit to South Africa.

So, the issue whether the tourists that were coming, why did you give the company credits because they didn't go to, specifically to PE, because the project was ... PE was just the initial part where it was going to be easier for the tour operators because they were just taking people to PE, but then the project expanded and some people didn't book through the tour operators but the issue is whether they were coming through these tour operators, the causality effect of the huge

31 JANUARY 2014

PHASE 1

public relations that was done by BAE and SAAB in all the four or five Scandinavian countries was a cause of people coming to South Africa which was a benefit to us.

That's why answering this question PE was never a factor anymore, that was the beginning of the project but because of that we got so many people coming to South Africa, not necessarily going to PE and some of the people who went to PE, they would go on Gamtoos River, everywhere, Keiskamma, all these places, so the project was not about us standing at the PE Airport and saying how many Scandinavians landed here and then that will be the offset credit, no, the project, the whole project was about getting Scandinavians coming to South Africa, whether they go to PE or not, it doesn't matter, that was the original business plan that they would go to PE but it expanded, things changed as we progressed with time.

ADV SKINNER: As I understand it from looking at the claims the claims were then ultimately assessed on the basis of obtaining figures as to the number of persons entering South Africa from the various countries, that will be the starting point, is that right?

MR ZIKODE: You're a hundred percent right, because now the offset company was saying, and which was true, that look, our efforts in Scandinavia has caused this exponential increase of people from Scandinavia coming to South Africa

31 JANUARY 2014

PHASE 1

and that was confirmed by SA Tourism that look, before 2001
no such things was happening, it was a very gradual increase
but after this huge PR campaign then there was a sudden spike
in terms of people coming from Scandinavia, but now the offset
5 company was saying using these tour operators we cannot
really catch all these other people who are no longer, or who
are not booking through these tour operators, who were part of
the original business plan.

South Africa was benefitting from that huge
10 increase as a result of the PR, so we had to find a way of how
do you, how do you catch the others. The agreement, because
look, we were getting advice, it was not just a thumb suck,
advice from South African Tourism, what do you do. You look,
obviously there was a baseline that we agreed upon and then
15 you look at the difference from the baseline and from that they
advised us in terms of normally out of 10 people coming from
Scandinavia to South Africa 50% or 60% would be for tourism,
the rest would be for business and then we used those numbers
according to the advice to credit for the performance.

20 ADV SKINNER: I just want to make sure I've understood
what you were saying is that the project moved from looking at,
or encouraging tourists specifically to the Eastern Cape and
Port Elizabeth to establishing from SA Tourism how many
persons from Scandinavia entered South Africa and from there
25 the estimated figure by SA Tourism as to how many of those

31 JANUARY 2014

PHASE 1

persons were tourists, is that right?

MR ZIKODE: Yes, that's right.

ADV SKINNER: The claims for this project went over a period from 2003 for some seven or eight years thereafter. Is that right?

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MR ZIKODE: That's right.

ADV SKINNER: On what basis was the DTI satisfied that tourists who were coming to South Africa some seven or eight years after the marketing campaign were coming as a result of the campaign?

10

MR ZIKODE: Well, when you approve a business plan right at the beginning, if your obligation period is 7 years then you claim all the sales, local sales and export sales that your project will generate to over those 7 years, that's the policy.

15

In this case BAE Systems had 11 years to offset the obligations, so whenever the project was approved, from where the project was approved they could claim the offset credits throughout the 11 years. There was no way where we will say ah, but you know now we have claimed a lot of credits from this project, here you stop. No. As long as it's still within the obligation period they could still claim.

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ADV SKINNER: Sir, I'm exploring more the concept of causality as to how DTI determines that a tourist who comes to South Africa some 7, 8 or even maybe a bit longer after the advertising campaign comes as a result of the advertising

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31 JANUARY 2014

PHASE 1

campaign.

MR ZIKODE: Like I've said there was initially that huge advertising campaign and I'm saying now that you might find that people who came here during those initial periods, they
5 went back and on their own said a lot of good things about what they saw in South Africa and their friends and their relatives then said well, we are going there, we want to see all this stuff you are talking about. The issue is that was a benefit to us, us South Africans. If you look at the claims, the senior
10 advocate is, the senior counsel, sorry, I'm not a lawyer, sometimes I confuse these terms, the senior counsel is referring to these claims and you ask yourselves Commissioners what does it mean, these claims that he is talking about. These claims were arrived at using the formula
15 he talked about where you take the number of tourists, you multiply it by US\$150, because US\$150 is the amount, that is generally accepted that is amount foreign tourists will spend in South Africa in a day, and then you multiply it by the number of days he or she stayed in South Africa.

20 So, if you look at that formula it tells you the contribution of that tourist into the South African economy, that's all it tells you, so if you look at these numbers, maybe the numbers that are worrying Senior Counsel Skinner, that is the benefit that accrued to us as South Africans and that was
25 given in terms of the credit to this company, but it is actually

31 JANUARY 2014

PHASE 1

the benefit that accrued to the South African economy.

So, what I'm saying, the Commissioners mustn't be scared by the big number of credits because what it says that credit is the actual benefit that accrued to the South African economy, that's our benefit over those number of years.

ADV SKINNER: Mr Zikode I'm not suggesting that there wasn't a benefit to the South African economy, all I'm trying to establish is on what basis DTI was satisfied that the persons coming to South Africa were coming as a result of the marketing campaign and coming some seven or eight years after the campaign.

MR ZIKODE: With all fairness I don't know how you can determine that after 8, 9 years with certainty that exactly all of them you know, were as a result of the initial marketing campaign. But what I'm saying, the initial marketing campaign caused a lot of tourists to come to South Africa because even though who came in the beginning of the whole project they went back and said good things about South Africa and some people came as a result of a word of mouth, but that word of mouth was caused by that original marketing campaign.

ADV SKINNER: I don't want to belabour the point, I just want to say to you that that's an assumption on your part that the tourists who came, came as a result of word of mouth, because it's impossible to establish exactly why the tourists came. Do you want to comment on that?

31 JANUARY 2014

PHASE 1

MR ZIKODE: What I'm saying to the Commission is it would have been impossible to determine that each and every Scandinavian who came to South Africa was as a result of that original marketing campaign but maybe I have to move on just to show to the Commissioners that when it comes to the information that we provided we were very modest in terms of our numbers. This particular project itself, if you look at what is happening in the tourism sector and the potential number of jobs it created in South Africa that were never accounted for in our numbers here, we all know the Minister of Tourism, everybody talks about when 10 foreign tourists come to South Africa one job is created here. That's what everybody talks about in this sector.

If you take claim, from Claim number 2 to Claim number 27 in terms of the number of tourists that came to South Africa we have about 244 000 tourists if you add them up. To show that the numbers are simple, if you use a factor of 10, not 7, normally they said 7 tourists creates a job, if you say 10 tourists creates a job the potential for job creation for this project which obviously I cannot prove, that's why we didn't even put here, this project created about 24 000 jobs alone, this project, if you follow the logic which is out there in the market that 7 tourists creates 1 job, but I'm just, I'm being modest, I say 10 tourists now, let us say 10 tourists creates a job, the potential jobs that were, or let me say the jobs that

31 JANUARY 2014

PHASE 1

were created roughly would amount to about 24 000. If you take seven it goes to about 34 000 jobs. But we didn't want to put all these numbers here because if a person say prove that it's very difficult to prove. I just thought maybe I will just raise that particular argument that you know, you can argue about whether the people came to the swimming pool and jumped into the swimming pool or not, but the issue is over the period we received almost 244 000 additional tourists from Scandinavia into this country as a result of the marketing efforts of these companies.

ADV SKINNER: Can I ask you to look at the volume of IPCC Minutes at page 142.

MR ZIKODE: Sorry, minutes?

ADV SKINNER: IPCC. This is page 3 of the minutes of the IPCC meeting held on 18 March 2005 and I'm referring to subparagraph 4(c) of the minutes, and you will see there in relation to Claim number 8 for Package Tourism it records:

"The claim is for adjusting 17-day average stay to 21-day average stay".

And in bold it says:

"The Committee decided to reject the claim as it was a package formula that was agreed upon at the outset of the project".

So, can we accept that that is correct that at the outset of the project it was agreed the claims would be based on 17 days per

31 JANUARY 2014

PHASE 1

tourist?

MR ZIKODE: That's correct.

ADV SKINNER: I see. Looking at the claims, why I raise that is that that was followed for most of the claims but Claim number 21 there was a claim allowed for 25.2 days, Claim 22 was for 20.2 days, Claim 23 for 19.4 days, the same for Claim 24 and so on. So, there were quite a few claims that were allowed for more days than the agreed package of 17 days. Can you explain that?

10 MR ZIKODE: Yes, but Senior Council, you must be fair to the argument now because there were also claims that were below 17 days, like the one that is Claim number 27 which was 14.8 days, but let me explain what happened. With time we started using STATS SA. STATS SA had exactly the numbers of stay, the tourists will spend in South Africa. So, what they will do, they will then give us over a period, they will give us an average that look, the people from Scandinavia, in that period these were the number of days they stayed. If it was 18 it's 18, if it's 19 it's 19.

20 Now because we had this information coming from STATS SA which was a credible information, we all know the work that STATS SA, that they normally do, we used that as now the exact numbers, we applied those averages that we got from STATS SA whereas before it was mainly an agreed upon figure because there was no ways as South African Tourism

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31 JANUARY 2014

PHASE 1

we'd have all these numbers where they say exactly these are the numbers of days they stay when they are here in March, when they were here in March and when they were here in February these were the number of days they stayed you know, 5 it was an agreed upon formula that it's going to be 17 yes, but then when we started using STATS SA, STATS SA provided the exact figures, so we agreed that instead of using an average let us use the exact figures because as you can see Claim 27, it was 14.8, so they lost on the factor of 3 that you know, if you 10 minus 17 from 14. On other times it would be more than 17 but these now were really almost correct figures that we were getting, not just an average.

ADV SKINNER: So, what you are saying is that as time went by it was decided to not stick to the package formula that 15 had been agreed upon at the outset but to rely on figures that were supplied from STATS SA?

MR ZIKODE: Yes.

ADV SKINNER: Sir, if you have regard to Annexure "F" page 110, what the figures show under "Dunlop", sorry, under 20 "Package Tourism" here is that there was an actual investment, all from the obligor, of US\$1.481 million, is that right?

MR ZIKODE: Right.

ADV SKINNER: That was for the cost of upgrading the swimming pool.

25 MR ZIKODE: Right.

31 JANUARY 2014

PHASE 1

ADV SKINNER: So, one can conclude that there were no claims that were ever submitted for the costs of the marketing campaign in Scandinavia.

MR ZIKODE: Yes.

5 ADV SKINNER: And the sales credit is the large sum of US\$627 million.

MR ZIKODE: Yes.

ADV SKINNER: And that's why I have been asking you to satisfy us that this was a project that properly fell within the
10 criteria and justified that very large award of sales credits.

MR ZIKODE: Oh yes, it did. It did fell within the criteria and that US\$627 million, this is what I was saying, this is the money that accrued to the South African economy, here it is reflected as a sales credit but in fact this is the money
15 that accrued to us as an export like it was classified by the Committee. So yes, your figures are correct.

ADV SKINNER: Mr Chairman, that's the end of that project. Maybe this would be a suitable time before we move onto another project.

20 CHAIRPERSON: We'll adjourn until 14h00.

(Commission adjourns.)

(Commission reopens.)

CHAIRPERSON: Can the witness confirm that he is still under oath?

25 MR ZIKODE: I do.

31 JANUARY 2014

PHASE 1

ADV SKINNER: Thank you Mr Chair. The next project I'm going to ask the witness to consider is Ferrochrome Mining and Beneficiation. For the sake of finding it on Annexure "F" it is referred to in Annexure "F" as "IFM", it's about three quarters
5 the way down the page of page 110, the first page. Mr Zikode, as I understand it this project involved the reestablishment of mining operations in the North West Province and the construction of a chromite smelter to further beneficiate the grade at all, would that be right?

10 MR ZIKODE: That's correct.

ADV SKINNER: Will you look at the Annexures File page 58. This is a submission by the Department to the-then Minister of Trade and Industry in respect of signing a letter of approval relating to this particular project, is that correct?

15 MR ZIKODE: Correct.

ADV SKINNER: On the second page, page 59 of the Annexures File paragraph 4 indicates that BAE SAAB have approached the IPS to consider a multiplier effect given that, and that there are four reasons set out. Now can I just pause
20 there where it says "A Multiplier effect ...", is that correct or is this a straight multiplier that was being sought?

MR ZIKODE: I think it's a straight multiplier that we ...

ADV SKINNER: The letter or the submission continues that there were four reasons sought by BAE, namely that they were
25 the sole financiers, the risk of not benefitting from the full

31 JANUARY 2014

PHASE 1

investment credits should the project fail, the third was the R25 million initial investment would equate to shares towards a BEE company, and lastly that the total commitment is a R150 million of which the remaining R125 million is to be invested in subsequent phases, so that correctly summarises why BAE SAAB were asking for a multiplier, would that be right?

MR ZIKODE: Yes.

ADV SKINNER: The paragraph after that which is still within paragraph 4 indicates that what was being sought from the Minister was a multiplier of 10 to the initial R25 million investment, so I concluded no multiplier in respect of the remaining commitment was being sought, is that right?

MR ZIKODE: Sorry, remaining of what? I don't understand that.

ADV SKINNER: Well, you will see subparagraph (d) of paragraph 4 talks about the remaining R125 million but all that was being sought was a multiplier of 10 in relation to the initial R25 million.

MR ZIKODE: Correct.

ADV SKINNER: Now that R25 million was referred to in paragraph 4(c) at page 59 as equating to shares towards a BEE company and it's only that portion in respect of which a multiplier was being sought. Can you explain why that was?

MR ZIKODE: Sorry, are you ... Were you reading from

31 JANUARY 2014

PHASE 1

the paragraph that starts with: "It is recommended ..."?

ADV SKINNER: I was referring to that sentence starting: "It is recommended ..." and relating that to what is set out in paragraph 4(c) above that.

5 MR ZIKODE: Yes, that's correct.

ADV SKINNER: Because that would then appear as to what is being sought is a multiplier in relation to what is described as "equating to shares towards a BEE company". Why would a multiplier be sought in that regard?

10 MR ZIKODE: Yes. This was a greenfield project which means before there wasn't anything, there was no projects, there was no mining operation in this place in Buffelsfontein and this was during the year when the BEE Act had just been approved by Parliament and the President in 2003 and then
15 during those times then you received such business proposals, so the pressure on government to support BEE economic empowerment was very high, so BAE Systems and its BEE partners approached the Department, they presented that there is an opportunity here for BEE companies to participate into
20 this project, this greenfield project. BAE was prepared to give them R25 million as you correctly noted, but for them to use that to get a stake into this new project.

25 But obviously if you look at the R25 million alone you don't have any multiplier there, there is no multiplier effect or whatever you call it, so BAE wouldn't have invested in such

31 JANUARY 2014

PHASE 1

a project within a project because the return in terms of the multipliers would be very small if we were considering one-to-one, so an objective of government of promoting BEE wouldn't have been achieved if you looked specifically at that small project within a project, so BAE requested that okay, because there are no other contributors into this R25 million it's only us as BAE Systems and the return in terms of investment if you considered R25 million alone, won't be enough if there's no multiplier.

10 Then the Minister gave that approval that then he will give a multiplier of 10 so that he can allow this black economic empowerment group to participate into this project. So, those were the considerations of the Minister at that time.

ADV SKINNER: The following page, page 60 of the Annexures File, the recommendation to the Minister was that only the initial R25 million investment would attract an irrevocable credit multiplier of 10. Can you explain why the recommendation referred to an "irrevocable credit multiplier"?

MR ZIKODE: Yes of course, the offset company was worried that here they are being drawn into a massive project, it's a greenfield project and nobody can give them certainty that this project will finally be realised. That's why then they asked us, or there was a condition that for that R25 million we have to give them irrevocable credits because they can put the money in and the South Africans themselves failed to put

31 JANUARY 2014

PHASE 1

together the project and their money would have gone down the drain when they were putting this money to support these important priority of government of empowering black people.

So, they say for this initial investment they would like to have the certainty that even if the project fails, even if the promoters of the project failed to put together the project into its realisation they will want still to have the credit for their effort, so that is why then the Minister used his discretion to give them those credits.

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10 ADV SKINNER: And then just for the record on page 60 the document clearly is signed by all the relevant persons, that's yourself. What does it say under your name of "CD Colen Industrial Participation Secretariat", what is the "CD"?

MR ZIKODE: Those days I was still a chief director, so
15 CD stands for chief director.

ADV SKINNER: And then Mr October we know who is the present director general signs then as deputy director general and can you just again explain what "EIDD" is?

MR ZIKODE: EIDD is the division that Mr Lionel October
20 was heading, and EIDD stands for Enterprise and Industry Development Division, so the Secretariat was falling under that division.

ADV SKINNER: And then the signature appears of the director general of Department and of the-then Minister of
25 Trade and Industry.

31 JANUARY 2014

PHASE 1

MR ZIKODE: Correct.

ADV SKINNER: The recommendation, the last sentence of that paragraph indicates:

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“It would be submitted to the IPCC for final endorsement”.

Why would that have been necessary if the Minister had consented?

10

MR ZIKODE: It was always necessary that the Secretariat will go back to the Industrial Participation Control Committee to inform them that yes, finally the Minister approved the project, so these endorsements is not about another level of approval over and above that of the Minister, but for courtesy purposes it was always necessary to go back to the IPCC and say yes, the Minister has given a final approval, these projects will be taken as approved by the Committee.

15

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ADV SKINNER: And the letter which is referred to in paragraph 60 as the attached letter which the Minister was being requested to sign is then the document at page 61, the following page signed by the Minister and submitted to SANAP.

MR ZIKODE: Correct.

ADV SKINNER: If you then have regard to Annexure "F" it reflects that the actual investment by the obligor BAE SAAB was some US\$22.4 million, would that be right?

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MR ZIKODE: That's right.

31 JANUARY 2014

PHASE 1

ADV SKINNER: The total investments including that and investments by other parties is then US\$215.5 million and investment credits of US\$267 million are granted.

MR ZIKODE: That's correct.

5 ADV SKINNER: So, that would be taking into account the multiplier of 10 only on the initial payment of the R25 million.

MR ZIKODE: Yes, that's correct, the rest of the credits will be as a result of the causality principle.

ADV SKINNER: Alright, let's move on to the next project I
10 want to consider Mr Chairman, this is the project which appears on the second page of Annexure "F" page 111 in the middle of the page, "Denel SAAB Aerospace". Mr Chairman it's on page 111 of Annexure "F", it's now almost in the middle and the project name is Denel SAAB Aerospace. Mr Zikode if I can
15 start this by asking you to look at the supplementary bundle that was handed up today at page 6 of that supplementary bundle, this is the submission that was made by SAAB in respect of the Denel project and it commences at page 6 and runs for quite a few pages and I want to refer you in particular
20 to page 13 of this bundle.

From page 13 it would appear that SAAB was proposing that it would receive what is described as an initial tranche of industrial participation credits upon signing the agreement. So, they were requesting that take place before
25 any investment or any technology transfer, would that be

31 JANUARY 2014

PHASE 1

correct, that's what they were proposing?

MR ZIKODE: You see, I will have to read this now because you know I got this thing today, so if you can just pinpoint exactly which sentence and what you are talking
5 about.

ADV SKINNER: I'm referring to the very first line on page 13.

MR ZIKODE: Okay sorry, can you repeat your question then?

10 ADV SKINNER: As I understand what was being set out in that first sentence on page 13 the proposal from SAAB was that it would receive what they described as an initial tranche of credits upon signature and I'm just querying whether I understand that the proposal would mean getting the credits
15 even before there had been any investment or any technology transfer or anything.

MR ZIKODE: Well, like it's written there upon closing of the transaction whereby SAAB or its designated subsidiary takes ownership of any share in the aero structures they could
20 only take that ownership after they have paid the money they are supposed to pay for the shares. So, upon paying for those shares and upon taking that ownership, then they would get the credit.

ADV SKINNER: In your last answer you were referring to
25 the numbered paragraph 1 on page 13, is that right?

31 JANUARY 2014

PHASE 1

MR ZIKODE: Yes.

ADV SKINNER: If I can then take you back to the Annexures File the Memorandum of Understanding that was concluded in respect of this transaction appears at page 63 and following of that file, but the document that I would like you to consider is at page 89 of the Annexures File, it's a letter addressed and signed by yourself to the CEO of SAAB which appears undated but the fax transmission slip the foot of the page indicates it was 18th of May 2005 that it was sent. You have that Mr Zikode, it's page 89.

MR ZIKODE: Yes.

ADV SKINNER: The document, the last paragraph on that page records that:

"With the Minister's guidance we ...".

That is the DTI:

"... have decided to increase our already generous offer of upfront credits to the following; ...".

Can I ask you what the motivation was of increasing what you describe as the "already generous offer of upfront credit"?

MR ZIKODE: Prior to that they couldn't agree as to what we were offering, so there were many interactions and I remember very well this letter followed the meeting that was between the Minister of Trade of Industry, us and SAAB in Cape Town. There was an initial package of credits that we offered and that they couldn't agree to that because of the

31 JANUARY 2014

PHASE 1

investment and many other things, the technology transfer, skills transfer they were going to offer to Denel. By the way, a South African company which was struggling those years making losses every year, being bailed out by the fiscus, every financial year the company was facing cancellation of contracts, big contracts, big contracts like A400M where they had a partnership with EADS to manufacture components of A400M which is a big carrier aircraft, but because of the problems within Denel they were facing all sorts of challenges, so yes, the company was going to bring expertise, bring know-how, bring the balance sheet into the aero structures claiming a very huge amount of credits.

What happened then, we reduced the number but then they were adamant that without us increasing or increasing the number of credits from the offer that we were putting, we were giving them, they would then pull out from this project, they even requested to meet with the Minister and that meeting happened in Cape Town. After that then DTI decided that they will increase the offer so that we assist our local defence company that was struggling. So, this letter refers to the original offer that was already on the table.

ADV SKINNER: What is recorded at page 89 is that the offer from the DTI is now US\$600 million of investment credits and US\$900 million are US Dollars of sales credits being a total of US\$1.5bn.

31 JANUARY 2014

PHASE 1

MR ZIKODE: Correct.

ADV SKINNER: The letter goes on to say on the following page, page 90, that in addition SAAB will be eligible to claim with a multiplier of 3 on all future sales revenues up to 2011.

5 Why was there going to be a multiplier on all future sales?

MR ZIKODE: Again on this one we have to look at the whole business plan and the benefits the South African defence industry was going to get as a result of the partnership. There were issues of technology transfer that is very difficult to evaluate and assess in terms of monetary value and skills transfer and the original proposal as far as I remember SAAB was proposing that there be a multiplier of 10 on all future sales over and above the upfront credits they will get when and as they invest money into getting shareholding into the aero structures.

10 So, we reduced, considering obviously the business plan is for the potential sales, the aero structures will develop over a number of years as a result of a partnership with this big multinational that was going to provide its balance sheet for the aero structures to get work all over the world. As many people know, to get these big contracts from all over the world you must have a very strong balance sheet which is a guarantee to the purchasing country that you are able to, you are going to be able to produce and execute you know the contract to their satisfaction. If you don't have a balance

31 JANUARY 2014

PHASE 1

sheet, like Denel didn't have, like I said Denel always had to back government to bail them every year.

5 So all these benefits some people put together and say for all these we need these kinds of credits, we reduced them, when it comes to the upfront credits we reduced the proposals when it comes to the multiplier on future credits. That's why it went from 10 to 3 and they did accept that in the end.

ADV SKINNER: Is this not a duplication where the obligor
10 is going to receive US\$900 million worth of sales credits but in addition he is going to receive a multiplier of 3 on all future sales revenues?

MR ZIKODE: It's not because when the committee looks at this they look at the potential gains that the local defence
15 industry will get from the transaction itself. You look at the future sales, you make calculations that out of all these potential future sales the credits they are demanding is 20% or 30% over the whole thing, so there is no way that if the business plan itself happened to produce almost exactly what
20 they are projecting there could be any duplication, not at all because the package was always smaller than the projected sales if you look into the future, because the business plan itself will give light in terms of what credit or multiplier you can give. There was no way that if the business plan says this
25 thing over a 10 year period it would generate 100 export sales,

31 JANUARY 2014

PHASE 1

in your package you give them 1 000 export sales, it wouldn't make sense, I don't remember such a thing. So, the business plan itself was always a guide in terms of what is it that you give as an upfront credit or as a multiplier. So there is no way
5 that there could be any duplication because this was a huge project going forward.

ADV SKINNER: I understand the size of the project Mr Zikode and that there was an anticipation of numerous benefits from it, but I'm simply asking you to consider the fact that the
10 offer, which we know was ultimately accepted, indicates there will be US\$900 million of sales and that's to be upfront, so that would be irrespective of whether there was any sale or not, SAAB would be entitled to US\$900 million of credits, is that right?

15 MR ZIKODE: No, but there were going to be sales in any way, that's how you look at it, the business plan says there will be so many sales generated over the years and then you look at that and say okay, from what he's requesting in terms of the upfront credits, how much can we give you according to the
20 business plan. Were you going to give more than what the business plan is projecting? There's just no way, so there couldn't be any duplication if the business plan was going to be implemented according to what it says.

ADV SKINNER: I'm not sure I understand that Mr Zikode.
25 I'm just asking you am I correct in my understanding that what

31 JANUARY 2014

PHASE 1

was being proposed and ultimately agreed to were upfront credits in respect of sales of US\$900 million, that was irrespective of whether any sale had taken place at that stage or not.

5 MR ZIKODE: At that stage, you are a hundred percent correct.

ADV SKINNER: And then the offer continued that despite this US\$900 million credit for sales SAAB will also get all future sales and not just the amount generated from future sales but a multiplier of 3 on the future sales.

10 MR ZIKODE: Correct.

ADV SKINNER: And that's why I'm suggesting this is a duplication because there is already a very large credit for sales and now they are going to get a multiplier of 3 on all sales.

15 MR ZIKODE: Well, that's not how we saw it.

CHAIRPERSON: Advocate Skinner, if you are going to start a new point I'm going to suggest that maybe we should adjourn now until Monday rather, (indistinct). (Indistinct) this point?

20 ADV SKINNER: Yes, I was simply going to ask the witness to look at one more document in relation to this project and then that's the end of that project.

CHAIRPERSON: (Indistinct).

ADV SKINNER: I'm indebted to the Chair. Will you look at the document at page 91 of the Annexures File. Do you have

31 JANUARY 2014

PHASE 1

that Mr Zikode/

MR ZIKODE: Yes. Yes, I do.

ADV SKINNER: This then records, because it's signed by
you accepting it, what the arrangement was which was as per
5 the original letter we've looked at, and then in paragraph 2 it
specifies in the second line that:

*"The upfront credits of US\$1.5bn will be awarded to
SANAP upon closure of the SAAB Denel Aero
Structures transaction and will be considered
10 irrevocable upon completion of the initial element of
the transfer of skills technologies, management and
marketing expertise".*

MR ZIKODE: Correct.

ADV SKINNER: And the last point I want to ask you on that
15 page is paragraph 3 it talks about:

*"The sales element of the upfront portion of credits
will initially be allocated as exports with SANAP
having the option to reallocate a proportion of these
to local sales should it so require".*

20 Can you just explain why that is so?

MR ZIKODE: Well, this is according to the NIP terms of
the BAE Systems and SAAB agreement, they can interchange
between the exports and local sales, so this is according to the
NIP terms.

25 ADV SKINNER: Thank you Chairman.

31 JANUARY 2014

PHASE 1

CHAIRPERSON: We are going to adjourn until Monday morning and we will start at the usual time. Advocate Skinner (indistinct). Is that understandable?

MR ZIKODE: It is understandable Sir but I don't know
5 whether there would be any way of fast tracking these when it comes to the leading of the evidence because with this place and looking at the size of the document we still have to cover I think I'll be here for many days which I don't think I could afford with all the responsibilities I've been given by the
10 Department of Trade and Industry, additional responsibilities.

CHAIRPERSON: (Indistinct). Advocate Skinner, do you have any comments to make to what the witness is saying?

ADV SKINNER: Mr Chairman, I'll certainly take cognisance of it. We've gone slowly initially to try and set out for the
15 Commission how the projects dealt with various topics of causality, multipliers and the like but I will certainly look at it to see if there are only certain pertinent projects that I need refer to, I certainly don't intend to refer to all of them.

CHAIRPERSON: (Indistinct) responsibilities. What is the
20 estimate?

ADV SKINNER: Mr Chairman, I would anticipate I should be able to finish in another day, but obviously I can't comment on whether there will be anybody who wants to cross-examine and how long that would be.

CHAIRPERSON: I think that's good enough if he says he
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31 JANUARY 2014

PHASE 1

would be in a position to finish on Monday, then the witness can probably assume that by Wednesday he will be done and again (indistinct). Mr Zikode, I'm sure you have heard what Advocate Skinner is saying, so we'll adjourn on that note.

5 Thank you.

(COMMISSION ADJOURNS)